



21 December 2012

The Manager
Company Announcements Office
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam

Notice of Extraordinary General Meeting

Please find **attached** a copy of the Notice of Extraordinary General Meeting, Explanatory Memorandum and Proxy Form for Elementos Limited's (ASX:ELT) Extraordinary General Meeting to be held on Monday, 21 January 2013.

These documents will be sent to shareholders today.

Shareholders are invited to attend the Company's Extraordinary General Meeting to be held at the offices of HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street, Brisbane, Queensland on Monday 21 January 2013 commencing at 2pm (Brisbane Time).

Yours faithfully

A handwritten signature in black ink, appearing to read 'Linda Scott', is written over a light grey horizontal line.

Linda Scott
Company Secretary

Elementos Limited ACN 138 468 756

Notice of Extraordinary General Meeting and Explanatory
Memorandum

Date of Meeting: Monday, 21 January 2013

Time of Meeting: 2pm (Brisbane time)

Place of Meeting: HopgoodGanim

Level 7, Waterfront Place

1 Eagle Street, Brisbane QLD 4000

Notice of Extraordinary General Meeting

Notice is given that an Extraordinary General Meeting of shareholders of Elementos Limited ACN 138 468 756 (**Company**) will be held at the offices of HopgoodGanim, Level 7 Waterfront Place, 1 Eagle Street, Brisbane on Monday, 21 January 2013 at 2pm (Brisbane time).

Agenda

Ordinary business

1. Issue of Shares to Andes Investors LLC on exercise of the Rights Issue Options

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

“That, for the purposes of item 7 of section 611 of the Corporations Act and for all other purposes the Company be authorised to issue up to 14,965,986 Shares to Andes Investors LLC (an entity associated with Mr Calaway, a Director of the Company) pursuant to the exercise of the Rights Issue Options, on the terms set out in this Explanatory Statement.”

Additional Information

Shareholder approval is sought under item 7 of section 611 of the Corporations Act so that Andes Investors LLC, an entity associated with Mr James Calaway (who is a Director of the Company), may acquire a relevant interest in Shares of the Company in excess of the permissible thresholds in the Corporations Act upon exercising Options acquired under the Rights Issue.

BDO has prepared an Independent Expert Report which comments on the fairness and reasonableness of the allotment and issue of Shares to Andes Investors upon the exercise of 14,965,986 Options exercisable at \$0.06 per Option. The Independent Expert Report concludes that allotment and issue of 14,965,986 Shares to Andes Investors is not fair but reasonable to the non-associated Shareholders. Shareholders are urged to carefully consider the Independent Expert's Report.

Voting exclusion statement

The Company will disregard any votes cast on this Resolution by:

- Andes Investors; and
- any associate of Andes Investors (including Mr Calaway).

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

2. Director Participation in the Director Fee and Remuneration Sacrifice Plan

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

“That, for the purposes of Listing Rule 7.2 (Exception 9(b)) and for all other purposes, approval be given for the issue of Shares to each of the Directors under the Fee Sacrifice Plan, on the terms set out in the Explanatory Memorandum.”

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Voting exclusion statement

The Company will disregard any votes cast on this Resolution by:

- each of the Directors; and
- any associate of the Directors.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

Further, a vote must not be cast on Resolution 2 by a member of the Company's Key Management Personnel or their closely Related Parties acting as proxy, if their appointment does not specify the way the proxy is to vote on Resolution 2. However, the chair of the Meeting (the **Chair**) will be entitled to vote an undirected proxy notwithstanding that he is a member of the Company's Key Management Personnel, if the proxy appointment expressly authorises the Chair to exercise the proxy.

3. Approval for Mr A. Anthony McLellan to acquire Shares under the Director Fee and Remuneration Sacrifice Plan

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

"That, for the purposes of Listing Rule 10.14 and for all other purposes, approval be given for the issue to Mr A. Anthony McLellan, a Director of the Company, of Shares under the Fee Sacrifice Plan on the terms set out in the Explanatory Memorandum".

Voting exclusion statement

The Company will disregard any votes cast on this Resolution by:

- Mr A. Anthony McLellan; and
- any associate of Mr A. Anthony McLellan.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

Further, a vote must not be cast on Resolution 3 by a member of the Company's Key Management Personnel or their closely Related Parties acting as proxy, if their appointment does not specify the way the proxy is to vote on Resolution 3. However, the chair of the Meeting (the **Chair**) will be entitled to vote an undirected proxy notwithstanding that he is a member of the Company's Key Management Personnel, if the proxy appointment expressly authorises the Chair to exercise the proxy.

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4. Approval for Mr Corey Nolan to acquire Shares under the Director Fee and Remuneration Sacrifice Plan

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

“That, for the purposes of Listing Rule 10.14 and for all other purposes, approval be given for the issue to Mr Corey Nolan, a Director of the Company, of Shares under the Fee Sacrifice Plan on the terms set out in the Explanatory Memorandum”.

Voting exclusion statement

The Company will disregard any votes cast on this Resolution by:

- Mr Corey Nolan; and
- any associate of Mr Corey Nolan.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

Further, a vote must not be cast on Resolution 4 by a member of the Company’s Key Management Personnel or their closely Related Parties acting as proxy, if their appointment does not specify the way the proxy is to vote on Resolution 4. However, the chair of the Meeting (the Chair) will be entitled to vote an undirected proxy notwithstanding that he is a member of the Company’s Key Management Personnel, if the proxy appointment expressly authorises the Chair to exercise the proxy.

5. Approval for Mr Mark McCauley to acquire Shares under the Director Fee and Remuneration Sacrifice Plan

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

“That, for the purposes of Listing Rule 10.14 and for all other purposes, approval be given for the issue to Mr Mark McCauley, a Director of the Company, of Shares under the Fee Sacrifice Plan on the terms set out in the Explanatory Memorandum”.

Voting exclusion statement

The Company will disregard any votes cast on this Resolution by:

- Mr Mark McCauley; and
- any associate of Mr Mark McCauley.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

Further, a vote must not be cast on Resolution 5 by a member of the Company’s Key Management Personnel or their closely Related Parties acting as proxy, if their appointment does not specify the way the proxy is to vote on Resolution 5. However, the chair of the Meeting (the Chair) will be entitled to vote an undirected proxy notwithstanding that he is a member of the Company’s Key Management Personnel, if the proxy appointment expressly authorises the Chair to exercise the proxy.

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6. Approval for Mr James Calaway to acquire Shares under the Director Fee and Remuneration Sacrifice Plan

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

“That, for the purposes of Listing Rule 10.14 and for all other purposes, approval be given for the issue to Mr James Calaway, a Director of the Company, of Shares under the Fee Sacrifice Plan on the terms set out in the Explanatory Memorandum”.

Voting exclusion statement

The Company will disregard any votes cast on this Resolution by:

- Mr James Calaway; and
- any associate of Mr James Calaway.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

Further, a vote must not be cast on Resolution 6 by a member of the Company’s Key Management Personnel or their closely Related Parties acting as proxy, if their appointment does not specify the way the proxy is to vote on Resolution 6. However, the chair of the Meeting (the Chair) will be entitled to vote an undirected proxy notwithstanding that he is a member of the Company’s Key Management Personnel, if the proxy appointment expressly authorises the Chair to exercise the proxy.

7. Issue of Options to Mr A. Anthony McLellan

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

“That, for the purposes of Listing Rule 10.11 and Part 2E of the Corporations Act and for all other purposes, the Company is authorised to issue 700,000 Options to Mr A. Anthony McLellan, a Director of the Company, or his nominee, on the terms set out in the Explanatory Memorandum.”

Notes

A copy of this Notice and the Explanatory Memorandum which accompanies this Notice has been lodged with ASIC in accordance with section 218 of the Corporations Act.

A detailed summary of the proposed terms of the Options the subject of Resolution 7 is contained within the Explanatory Memorandum.

Voting exclusion statement

The Company will disregard any votes cast on this Resolution by:

- Mr A. Anthony McLellan; and
- any associate of Mr A. Anthony McLellan.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

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Further, a vote must not be cast on Resolution 7 by a member of the Company's Key Management Personnel or their closely Related Parties acting as proxy, if their appointment does not specify the way the proxy is to vote on Resolution 7. However, the chair of the Meeting (the Chair) will be entitled to vote an undirected proxy notwithstanding that he is a member of the Company's Key Management Personnel, if the proxy appointment expressly authorises the Chair to exercise the proxy.

8. Issue of Options to Mr Corey Nolan

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

"That, for the purposes of Listing Rule 10.11 and Part 2E of the Corporations Act and for all other purposes, the Company is authorised to issue 800,000 Options to Mr Corey Nolan, a Director of the Company, or his nominee, on the terms set out in the Explanatory Memorandum."

Notes

A copy of this Notice and the Explanatory Memorandum which accompanies this Notice has been lodged with ASIC in accordance with section 218 of the Corporations Act.

A detailed summary of the proposed terms of the Options the subject of Resolution 8 is contained within the Explanatory Memorandum.

Voting exclusion statement

The Company will disregard any votes cast on this Resolution by:

- Mr Corey Nolan; and
- any associate of Mr Corey Nolan.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

Further, a vote must not be cast on Resolution 8 by a member of the Company's Key Management Personnel or their closely Related Parties acting as proxy, if their appointment does not specify the way the proxy is to vote on Resolution 8. However, the chair of the Meeting (the Chair) will be entitled to vote an undirected proxy notwithstanding that he is a member of the Company's Key Management Personnel, if the proxy appointment expressly authorises the Chair to exercise the proxy.

9. Issue of Options to Mr Mark McCauley

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

"That, for the purposes of Listing Rule 10.11 and Part 2E of the Corporations Act and for all other purposes, the Company is authorised to issue 350,000 Options to Mr Mark McCauley, a Director of the Company, or his nominee, on the terms set out in the Explanatory Memorandum."

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Notes

A copy of this Notice and the Explanatory Memorandum which accompanies this Notice has been lodged with ASIC in accordance with section 218 of the Corporations Act.

A detailed summary of the proposed terms of the Options the subject of Resolution 9 is contained within the Explanatory Memorandum.

Voting exclusion statement

The Company will disregard any votes cast on this Resolution by:

- Mr Mark McCauley; and
- any associate of Mr Mark McCauley.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

Further, a vote must not be cast on Resolution 9 by a member of the Company's Key Management Personnel or their closely Related Parties acting as proxy, if their appointment does not specify the way the proxy is to vote on Resolution 9. However, the chair of the Meeting (the **Chair**) will be entitled to vote an undirected proxy notwithstanding that he is a member of the Company's Key Management Personnel, if the proxy appointment expressly authorises the Chair to exercise the proxy.

10. Issue of Options to Mr James Calaway

To consider and, if thought fit, pass the following Ordinary Resolution, with or without amendment:

"That, for the purposes of Listing Rule 10.11 and Part 2E of the Corporations Act and for all other purposes, the Company is authorised to issue 500,000 Options to Mr James Calaway, a Director of the Company, or his nominee, on the terms set out in the Explanatory Memorandum."

Notes

A copy of this Notice and the Explanatory Memorandum which accompanies this Notice has been lodged with ASIC in accordance with section 218 of the Corporations Act.

A detailed summary of the proposed terms of the Options the subject of Resolution 10 is contained within the Explanatory Memorandum.

Voting exclusion statement

The Company will disregard any votes cast on this Resolution by:

- Mr James Calaway; and
- any associate of Mr James Calaway.

However, the Company need not disregard a vote if:

- it is cast by a person as proxy for a person who is entitled to vote, in accordance with the directions on the proxy form; or
- it is cast by the person chairing the Meeting as proxy for a person who is entitled to vote, in accordance with the direction on the proxy form to vote as the proxy decides.

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Further, a vote must not be cast on Resolution 10 by a member of the Company's Key Management Personnel or their closely Related Parties acting as proxy, if their appointment does not specify the way the proxy is to vote on Resolution 10. However, the chair of the Meeting (the **Chair**) will be entitled to vote an undirected proxy notwithstanding that he is a member of the Company's Key Management Personnel, if the proxy appointment expressly authorises the Chair to exercise the proxy.

General business

To consider any other business as may be lawfully put forward in accordance with the Constitution of the Company.

By order of the board



Ms Linda Scott
Company Secretary
Elementos Limited
10 December 2012

Explanatory Memorandum

1. Introduction

This Explanatory Memorandum is provided to shareholders of **Elementos Limited** ACN 138 468 756 (**Company**) to explain the resolutions to be put to Shareholders at the Extraordinary General Meeting to be held at HopgoodGanim, Level 7 Waterfront Place, 1 Eagle Street, Brisbane on Monday 21, January 2013 commencing at 2pm (Brisbane time).

The Directors recommend shareholders read the accompanying Notice of Meeting and Independent Experts Report, and this Explanatory Memorandum in full before making any decision in relation to the resolutions.

Terms used in this Explanatory Memorandum are defined in Section 7.

2. Resolution 1 - Issue of Shares to Andes Investors LLC on exercise of the Rights Issue Options

Background

Pursuant to a prospectus dated 28 August 2012, the Company conducted a pro-rata, non-renounceable entitlement offer (**Offer**) to eligible shareholders on the basis of four shares for every five held, at a discounted issue price of \$0.035 per Share, plus one Rights Issue Option for every two Shares subscribed for under the Offer.

The Offer was sub-underwritten by Andes Investors, an existing Shareholder and an entity associated with James Calaway, a Director of the Company. As at the record date of the Offer on 6 September 2012, Andes Investors held 9,908,035 Shares and was accordingly entitled to subscribe for 7,926,428 Shares and 3,963,214 Rights Issue Options under the Offer.

Under the terms of the sub-underwriting agreement between Andes Investors and the Company, Andes Investors was required (and entitled) to subscribe for up to the first 22,005,543 Shares (representing \$770,194.02) and 11,002,772 Rights Issue Options comprising the shortfall after the close of the Offer.

As set out in the Company's announcement on the ASX on 12 October 2012, following completion of the Offer, the Company issued to Andes Investors 29,931,971 Shares and 14,965,986 Rights Issue Options under the Offer, comprising of the 7,926,428 Shares and 3,963,214 Rights Issue Options by virtue of Andes Investors taking up its entitlement and 22,005,543 Shares and 11,002,772 Rights Issue Options pursuant to the terms of the sub-underwriting agreement.

Regulatory Requirements

Section 606 of the Corporations Act prohibits a person from acquiring an interest in a company if the acquisition would result in that person's, or someone else's, voting power in the company increasing from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%.

There are specified exemptions to the general prohibition in Section 606 of the Corporations Act. In particular, Item 7 of section 611 of the Corporations Act exempts an acquisition that would otherwise be in breach of section 606 where a resolution is passed at a general meeting of the company before the acquisition is made. The parties involved in the acquisition and their associates are not able to cast a vote on the resolution.

In addition, item 10 of section 611 exempts an acquisition under a pro-rata rights issue. The exemption extends to an acquisition by a person as underwriter or sub-underwriter to the issue. Although this exemption was relied on by Andes Investors when it and its associated entities' shareholdings in the Company increased to 28.23% on receipt of the 29,931,971 Shares issued under the Offer, it is the view of the Company that the exception in Section 606 items 11 does not extend to Shares issued as a result of the exercise of options acquired under the exception. Accordingly

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Shareholder approval is sought under Item 7 of Section 611 of the Corporations Act for the issue of Shares to Andes Investors on exercise of the Rights Issue Options.

Increase in voting power in the Company resulting from the acquisition on exercise of Options

As at the date of this Notice, Andes Investors and its associates, Mr Calaway and Lithium Investors LLC have a combined relevant interest in 28.23% of Shares in the Company and a corresponding 28.23% voting power in the Company.

The exercise of the Rights Issue Options held by Andes Investors will result in Andes Investors acquiring a relevant interest in voting shares in the Company, such that it and its associates voting power would increase from a starting point that is above 20% and below 90%. Full details of the increases in voting power that may result from the exercise of the Rights Issue Options is set out below.

The purpose of Resolution 1 is to seek Shareholder approval for the allotment and issue by the Company of up to 14,965,986 Shares to Andes Investors following the exercise by Andes Investors of its Rights Issue Options at an exercise price of \$0.06. Should all of the 14,965,986 Rights Issue Options be exercised the Company would receive payment from Andes Investors in the amount of \$897,419.

Corporations Act requirements

By passing Resolution 1 Andes Investors will be permitted to exercise its Rights Issue Options without being in breach of the takeover provisions of the Corporations Act.

The following paragraphs set out information required to be provided to Shareholders under item 7 of section 611 of the Corporations Act.

Shareholders are also referred to the Independent Expert Report prepared by BDO that concludes that the issue of 14,965,986 Shares to Andes Investors on exercise of its Rights Issue Options is not fair but is reasonable to the non-associated Shareholders. A copy of the Independent Expert's Report is attached to this Notice and Shareholders are encouraged to consider the report before voting on Resolution 1.

(a) *Identity of the person proposing to make the acquisition and their associates*

Andes Investors, a Texas based investment company, is the holder of the 14,965,986 Rights Issue Options and is the entity that will be issued a maximum of 14,965,986 Shares upon the exercise of these options.

Mr James Calaway, a Director of the Company, and Lithium Investors LLC are associates of Andes Investors. Accordingly, Mr Calaway and Lithium Investors LLC will have a relevant interest in the 14,965,986 Shares to be issued to Andes Investors upon the exercise of the Rights Issue Options.

(b) *Increase in voting power in the Company resulting from the acquisition on exercise of the Rights Issue Options*

As at the date of this Notice, Andes Investors and its associates, Mr Calaway and Lithium Investors have a combined relevant interest in 28.23% of Shares in the Company and 28.23% voting power in the Company.

If Resolution 1 is passed and Andes Investors exercises its Rights Issue Options, Andes Investors and its associates may acquire a relevant interest in up to a maximum of 56,835,248 Shares, being their existing aggregate holding of 41,869,262 Shares plus the 14,965,986 Shares issued on exercise of its Rights Issue Options. This would lead to Andes Investors and its associate's relevant interest (including that of Mr Calaway) in Shares in the Company to increase by approximately 6.58% or from 28.23% to approximately 34.81%.

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(c) **Intentions of Andes Investors regarding the future of the Company**

Andes Investors has informed the Company, as at the date of this Notice and on the basis of facts and information available to them, the Shareholders approve Resolution 1, it:

- (1) has no intention to change the existing business of the Company;
- (2) has no current intention to inject further capital into the Company;
- (3) does not propose for any property be transferred between the Company and it or any person associated with it;
- (4) has not current intention to otherwise redeploy the fixed assets of the Company;
- (5) has no current intention to change the Company's existing financial dividend policies.

(d) **Timing of the proposed exercise of Rights Issue Options**

The Shares will be allotted and issued upon exercise of the Rights Issue Options held by Andes Investors, which may be at any time between the approval of Resolution 1 and the expiry of the Rights Issue Options which is 9 April 2014.

(e) **Reasons for the issue**

The Shares will be issued to Andes Investors as a result of the exercise of the Rights Issue Options held by it.

Andes Investors acquired the 14,965,986 Rights Issue Options through its participation and sub-underwriting of the Company's pro-rata non-renounceable rights issue which was announced to the ASX on 28 August 2012 and offered pursuant to a prospectus dated 28 August 2012.

(f) **Directors interests and recommendations**

Mr Corey Nolan, Mr A. Anthony McLellan and Mr Mark McCauley (being directors independent of Mr James Calaway) recommend that Shareholders not associated with Andes Investors vote in favour of Resolution 1.

No votes can be cast on Resolution 1 by Andes Investors or its associates Mr Calaway or Lithium Investors LLC. Full voting exclusion statements are set out in the Notice of Meeting preceding this Explanatory Memorandum.

(g) **Independent Expert Report**

The directors of the Company have commissioned the Independent Expert to prepare a report on the question of whether the issue of Shares, upon the exercise of the Rights Issue Options, to Andes Investors is fair and reasonable to the Shareholders not associated with the proposal. That report is **attached** to this Explanatory Memorandum at Annexure A.

The Independent Expert concludes that the issue of the Shares, upon the exercise of the Rights Issue Options, to Andes Investors is, on balance, not fair but is reasonable to Shareholders not associated with the proposal. Shareholders are urged to read the Independent Experts Report.

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(h) ***Impact on the Company if Shareholders do not approve the issue of Shares, upon the exercise of the Rights Issue Options, to Andes Investors***

If Resolution 1 is not approved by Shareholders, Andes Investors cannot rely on the exception in item 7 of section 611 of the Corporations Act and may not be able to exercise all of its Rights Issue Options.

The exercise of all the Rights Issue Options held Andes Investors would result in the Company receiving proceeds in the amount of \$897,419.00. If Shareholders do not approve Resolution 1, this sum of cash may not be received by the Company.

If Resolution 1 is not approved, Andes Investors may still be able to exercise some of the Rights Issue Options, as Item 9 of Section 611 of the Corporations Act will allow Andes Investors to acquire up to a further 3% of the voting interest in the Company every 6 months.

3. Resolutions 2, 3, 4, 5 and 6 - Director Participation in the Director Fee and Remuneration Sacrifice Plan and acquisition of Shares by each Director

Background

The Board has recently established a Director Fee and Remuneration Sacrifice Share Plan (**Plan**) under which the Company has agreed, subject to Shareholder approval, to issue Shares to the Directors in lieu of the amount of Directors' fees or executive remuneration that each Director has agreed to sacrifice from their monthly Director's fees or remuneration.

The Directors consider that the issue or transfer of the Shares to Directors as part of their remuneration package is reasonable and appropriate given:

- (a) it is a cost effective and efficient reward for service. The issue of Shares in lieu of cash payments preserves the Company's cash resources and reduces ongoing costs;
- (b) the responsibilities involved in the relevant Director's position within the Company;
- (c) it aligns remuneration with the future growth and prospects of the Company and the interests of Shareholders by encouraging Director Share ownership; and
- (d) the Plan involves foregoing remuneration to which the Directors are already entitled and is replacing that remuneration with Shares of the same or substantially similar value.

A summary of the terms of the Plan are set out in Annexure A.

Approvals Sought

Listing Rule 7.2 Exception 9

Under Listing Rule 7.1, a company must not issue securities in any 12 month period which exceeds 15% of the number of issued securities of the company held at the beginning of the 12 month period, except with the prior approval of shareholders of the company in general meeting on the terms and conditions of the proposed issue. Under Listing Rule 7.1A, eligible entities are able to issue up to a further 10% of their issued capital in certain circumstances.

One of the exceptions to Listing Rule 7.1 and Listing Rule 7.1A is Listing Rule 7.2 Exception 9(b) which provides that Listing Rule 7.1 and Listing Rule 7.1A do not apply to an issue under an employee incentive scheme if within 3 years before the date of issue, shareholders have approved the issue under an employee incentive scheme as an exception to Listing Rule 7.1 and Listing Rule 7.1A. Accordingly, the Company is seeking Shareholder approval under Listing Rule 7.2 Exception 9(b) to enable the Company to issue Shares under the Plan without counting towards the Company's 15% placement capacity under Listing Rule 7.1 (or any ability to issue Shares under Listing Rule 7.1A) and the additional 10% placement capacity under Listing Rule 7.1A.

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Listing Rule 10.14

Under Listing Rule 10.11, a company must obtain the approval of its shareholders by resolution before it can issue securities to a related party. As Directors are deemed to be related parties of the Company, any issue of Shares under the Plan requires Shareholder approval under Listing Rule 10.11 unless an exception applies.

Listing Rule 10.12, exception 4 provides that approval under Listing Rule 10.11 is not required where securities are to be issued to a person under an employee incentive scheme that has been approved under Listing Rule 10.14. Accordingly, the Company is seeking Shareholder approval under Listing Rule 10.14 to issue Shares to the Directors under the Plan.

Participation of Directors

Pursuant to the terms of the Plan, each of the Non-Executive Directors, namely Mr A. Anthony McLellan, Mr Mark McCauley and Mr James Calaway are entitled to sacrifice each month up to a maximum of all of their monthly remuneration (subject to reductions for applicable tax and superannuation) for their services as a non-executive director of the Company or as a member of any committee of the Board into Shares. The Managing Director, Corey Nolan, is entitled to salary sacrifice each month up to a maximum of his monthly base salary (subject to reductions for applicable tax and superannuation) into Shares.

Approval is being sought to issue a maximum of 8,000,000 Shares to Directors under the Plan. Upon the maximum 8,000,000 Shares being issued to Directors, no further Shares will be issued to the Directors under the Plan and the Director's remuneration will revert back to being paid in cash.

As noted in the Explanatory Memorandum for Resolution 1, Mr Calaway and his associates have a relevant interest in more than 20% of the Shares in the Company and Mr Calaway is therefore prohibited from acquiring Shares under the Plan unless the acquisition falls within an exception to the prohibition as set out in section 611 of the Corporations Act. As such, it is proposed that an agreed portion of the director's remuneration due to Mr Calaway will continue to accrue until such time as Mr Calaway may be entitled to have Shares validly issued to him in compliance with Chapter 6 of the Corporations Act.

If Shareholders do not approve the issue of Shares to the Directors under Resolutions 2, 3, 5 and 6 in lieu of their fees, then the Directors remuneration will continue to be paid in cash.

Listing Rule 10.15A and Listing Rule 7.2 Exception 9

Listing Rule 10.15A and Listing Rule 7.2 Exception 9 requires the following information regarding the Plan to be included in this Explanatory Memorandum:

(a) *Number of securities to be issued*

The maximum number of Shares for which approval is being sought under the Plan is for a maximum of 8,000,000 Shares to be issued to Directors over a three year period between 21 January 2013 and 20 January 2016.

Subject to the maximum 8,000,000 Shares, the actual number of Shares that will be issued to the Directors under the Plan will be determined by reference to the following formula (**Issue Formula**):

$$S = \frac{QR}{VWAP}$$

Where:

- S is the maximum number of Shares to be issued in any 3 month period;

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- QR is the remuneration being sacrificed by participating Directors over the relevant 3 month period (exclusive of superannuation and applicable tax);
- VWAP is the volume weighted average price of over the 5 ASX trading days prior to the Shares being issued.

If Shareholder approval is granted, in the first month following approval the Company intends to issue Shares to Participating Directors in lieu of remuneration accrued but not paid for the months of November 2012, December 2012 and January 2013 (excluding superannuation and applicable tax) (**Accrued Remuneration Shares**).

If the number of Shares to be issued to the Directors under the Plan were to exceed the maximum of 8,000,000 Shares, then the equity component of the Director's remuneration would be paid out in cash to ensure the maximum is not exceeded.

(b) ***Price of securities***

The price of Shares to be issued under the Plan will be based on volume weighted average price over the 5 ASX trading days prior to the Shares being issued. Under the Plan the Shares are to be issued every 3 months in arrears on the 15th of the month, with the first period following this meeting commencing February 2013 and ending April 2013.

However, as noted above, if Shareholder approval is granted, in the first month following approval the Company intends to issue the Accrued Remuneration Shares to Participating Directors in lieu of remuneration accrued but not paid for the months of November 2012, December 2012 and January 2013 (excluding superannuation and applicable tax). The price of the Accrued Remuneration Shares to be issued will be based on the volume weighted average price over the 5 ASX trading days prior to the Accrued Remuneration Shares being issued, which in any event will occur no later than one month after Shareholder approval is granted.

(c) ***No Previous participants***

As the Plan is a new Plan there have been no previous participants.

(d) ***Eligible directors***

The following Directors are eligible to participate in the Plan.

- (1) Mr A. Anthony McLellan;
- (2) Mr Mark McCauley;
- (3) Mr James Calaway; and
- (4) Mr Corey Nolan

(e) ***No Loan arrangements***

Shares will be acquired under the Plan pursuant to fee sacrifice arrangements with each of the Directors. There are not proposed to be any loans in relation to such acquisitions.

(f) ***Annual report Disclosure***

Details of any Shares issued under the Plan will be published in each annual report of the Company relating to the period in which the Shares have been issued.

Any additional persons who become entitled to participate in the Plan after Resolution 2 is approved and who are not named in this Notice will not participate in the Plan until approval is obtained under Listing Rule 10.14 (if approval is required under that Listing Rule).

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(g) **Date of issue**

Subject to the Shares to be issued to Mr Calaway, the Company will issue Shares under the Plan every 3 months in arrears on the 15th of the month, with the first period following this meeting commencing February 2013 and ending April 2013, for the period of 21 January 2013 to 20 January 2016.

However, as noted above, if Shareholder approval is granted, in the first month following approval the Company intends to issue Shares to Participating Directors in lieu of remuneration accrued but not paid for the months of November 2012, December 2012 and January 2013 (excluding superannuation and applicable tax).

As noted above, it is proposed that an agreed portion of the director's remuneration due to Mr Calaway will continue to accrue until such time as Mr Calaway may be entitled to have Shares validly issued to him in compliance with Chapter 6 of the Corporations Act.

(h) **Voting Exclusion Statement**

No votes can be cast on Resolutions 2, 3, 4, 5 or 6 by any of the Directors or their associates. Full voting exclusion statements are set out in the Notice of Meeting preceding this Explanatory Memorandum.

4. Resolutions 7, 8, 9 and 10 – Issue of Options to Mr A. Anthony McLellan, Mr Corey Nolan, Mr Mark McCauley and Mr James Calaway

Background

The Directors have resolved to refer to Shareholders for approval of the proposed issue of 700,000 Options to Mr McLellan, 800,000 Options to Mr Nolan, 350,000 Options to Mr McCauley and 500,000 Options to Mr Calaway, being Directors of the Company (each a Recipient) exercisable at 6 cents each on or before 20 January 2017.

Approval for the issue of the Options is sought in accordance with the provisions of Listing Rule 10.11 of the ASX Listing Rules and Part 2E of the Corporations Act. If approval is given under Listing Rule 10.11, approval will not be required under Listing Rule 7.1.

In order for the Options to be granted to directors, the requirements of Chapters 2E of the Corporations Act and Listing Rule 10.11 need to be observed.

Options terms

The terms of the Issue of Options to the Directors are set out in Annexure B.

Regulatory Requirements

Chapter 2E of the Corporations Act

Chapter 2E of the Corporations Act prohibits a public company from giving a financial benefit to a related party of a public company unless shareholder approval is obtained in accordance with the requirements of Chapter 2E or the benefit falls within one of various exceptions to the general prohibition.

A "related party" for the purposes of the Corporations Act is defined widely and includes a director of the public company.

A "financial benefit" for the purposes of the Corporations Act has a very wide meaning. It includes the public company paying money or issuing securities to the related party. In determining whether or not a financial benefit is being given, it is necessary to look to the economic and commercial substance

Explanatory Memorandum

and effect of what the public company is doing (rather than just the legal form). Any consideration which is given for the financial benefit is to be disregarded, even if it is full or adequate.

This proposed resolution, if passed, will confer financial benefits to each of the Directors and the Company seeks to obtain member approval in accordance with the requirements of Chapter 2E of the Corporations Act and for this reason and for all other purposes the following information is provided to Shareholders.

The related party to whom Resolutions 7, 8, 9 and 10 would permit the financial benefit to be given

Each of Mr McLellan, Mr Nolan, Mr McCauley and Mr Calaway, being the Directors of the Company.

The nature of the financial benefit

The nature of the proposed financial benefit to be given is:

- (a) the grant of 700,000 Options to Mr McLellan, 800,000 Options to Mr Nolan, 350,000 Options to Mr McCauley and 500,000 Options to Mr Calaway as referred to in Resolutions 7, 8, 9 and 10 respectively;
- (b) the Options shall be granted for no cash consideration; and
- (c) the Options shall be exercisable into Shares at an exercise price of 6 cents per Option exercisable on or before 20 January 2017.

Directors' recommendation

With respect to Resolution 7, Mr Nolan, Mr McCauley and Mr Calaway recommend that Shareholders vote in favour of this resolution. The reasons for their recommendation include:

- (a) the grant of the Options as proposed to the Recipient will provide him with reward and incentive for future services they will provide to the Company to further the progress of the Company.
- (b) the Options are not intended as a substitute for salary or wages or as a means for compensation for past services rendered; and
- (c) in the Company's circumstances as they existed as at the date of this Explanatory Memorandum, the Directors considered that the incentive provided a cost-effective and efficient incentive as opposed to alternative forms of incentives (eg cash bonuses, increased remuneration). However, it must be recognised that there will be an opportunity cost to the Company, being the price at which the Company could grant the Options to a third party.

As Mr McLellan is interested in the outcome of Resolution 7, he accordingly makes no recommendation to Shareholders in respect of this resolution.

With respect to Resolution 8, Mr McLellan, Mr McCauley and Mr Calaway recommend that Shareholders vote in favour of this resolution. The reasons for their recommendation include:

- (a) the grant of the Options as proposed to the Recipient will provide him with reward and incentive for future services they will provide to the Company to further the progress of the Company.
- (b) the Options are not intended as a substitute for salary or wages or as a means for compensation for past services rendered; and
- (c) in the Company's circumstances as they existed as at the date of this Explanatory Memorandum, the Directors considered that the incentive provided a cost-effective and

Explanatory Memorandum

efficient incentive as opposed to alternative forms of incentives (eg cash bonuses, increased remuneration). However, it must be recognised that there will be an opportunity cost to the Company, being the price at which the Company could grant the Options to a third party.

As Mr Nolan is interested in the outcome of Resolution 8, he accordingly makes no recommendation to Shareholders in respect of this resolution.

With respect to Resolution 9, Mr McLellan, Mr Nolan and Mr Calaway recommend that Shareholders vote in favour of this resolution. The reasons for their recommendation include:

- (a) the grant of the Options as proposed to the Recipient will provide him with reward and incentive for future services they will provide to the Company to further the progress of the Company.
- (b) the Options are not intended as a substitute for salary or wages or as a means for compensation for past services rendered; and
- (c) in the Company's circumstances as they existed as at the date of this Explanatory Memorandum, the Directors considered that the incentive provided a cost-effective and efficient incentive as opposed to alternative forms of incentives (eg cash bonuses, increased remuneration). However, it must be recognised that there will be an opportunity cost to the Company, being the price at which the Company could grant the Options to a third party.

As Mr McCauley is interested in the outcome of Resolution 9, he accordingly makes no recommendation to shareholders in respect of this resolution.

With respect to Resolution 10, Mr McLellan, Mr Nolan and Mr McCauley recommend that Shareholders vote in favour of this resolution. The reasons for their recommendation include:

- (a) the grant of the Options as proposed to the Recipients will provide them with reward and incentive for future services they will provide to the Company to further the progress of the Company.
- (b) the Options are not intended as a substitute for salary or wages or as a means for compensation for past services rendered; and
- (c) in the Company's circumstances as they existed as at the date of this Explanatory Memorandum, the Directors considered that the incentive provided a cost-effective and efficient incentive as opposed to alternative forms of incentives (eg cash bonuses, increased remuneration). However, it must be recognised that there will be an opportunity cost to the Company, being the price at which the Company could grant the Options to a third party.

As Mr Calaway is interested in the outcome of Resolution 10, he accordingly makes no recommendation to shareholders in respect of this resolution.

Directors' interest and other remuneration

Mr McLellan has a material personal interest in the outcome of Resolution 7, as it is proposed that Options be granted to him (or his respective nominee) as set out in Resolution 7.

Excluding the Options to be issued under Resolution 7, Mr McLellan (and entities associated with him) holds Nil Shares and 2,000,000 Options in the Company. Please refer to the table below which indicates the holdings of Mr McLellan (and entities associated with him).

Other than the Options to be issued to Mr McLellan pursuant to Resolution 3, Mr McLellan currently receives director's remuneration of \$81,750 per annum (inclusive of superannuation and prior to any

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proposed salary sacrificing arrangements set out in Resolutions 2 and 3) from the Company for his services as Non-Executive Chairman.

Mr Nolan has a material personal interest in the outcome of Resolution 8, as it is proposed that Options be granted to him (or his respective nominee) as set out in Resolution 8.

Excluding the Options to be issued under Resolution 8, Mr Nolan (and entities associated with him) holds 264,215 Shares and 2,558,714 Options in the Company. Please refer to the table below which indicates the holdings of Mr Nolan (and entities associated with him).

Other than the Options to be issued to Mr Nolan pursuant to Resolution 8, Mr Nolan currently receives remuneration of \$250,000 per annum (inclusive of superannuation and prior to any proposed salary sacrificing arrangements set out in Resolutions 2 and 4) from the Company for his services as Managing Director.

Mr McCauley has a material personal interest in the outcome of Resolution 9, as it is proposed that Options be granted to him (or his respective nominee) as set out in Resolution 9.

Excluding the Options to be issued under Resolution 9, Mr McCauley (and entities associated with him) holds Nil Shares and 500,000 Options in the Company. Please refer to the table below which indicates the holdings of Mr McCauley (and entities associated with him).

Other than the Options to be issued to Mr McCauley pursuant to Resolution 9, Mr McCauley currently receives director's remuneration of \$43,600 per annum (inclusive of superannuation and prior to any proposed salary sacrificing arrangements set out in Resolutions 2 and 5) from the Company for his services as Non-Executive Director.

Mr Calaway has a material personal interest in the outcome of Resolution 10, as it is proposed that Options be granted to him (or his respective nominee) as set out in Resolution 10.

Excluding the Options to be issued under Resolution 10, Mr Calaway (and entities associated with him) holds 41,869,262 Shares and 15,965,986 Options in the Company. Please refer to the table below which indicates the holdings of Mr Calaway (and entities associated with him).

Other than the Options to be issued to Mr Calaway pursuant to Resolution 10, Mr Calaway currently receives director's remuneration of \$40,000 per annum (total cost to the Company prior to any proposed salary sacrificing arrangements set out in Resolutions 2 and 6) from the Company for his services as Non-Executive Director.

If all of the Options granted are exercised by Mr McLellan, Mr Nolan, Mr McCauley and Mr Calaway, the following will be the effect on their holdings in the Company:

Valuation

The Options are not currently quoted on the ASX and as such have no market value. The Options each grant the holder thereof a right of grant of one ordinary share in the Company upon exercise of the Option and payment of the exercise price of the Option described above. Accordingly, the Options may have a present value at the date of their grant.

The Options may acquire future value dependent upon the extent to which the shares exceed the exercise price of the Options during the term of the Options.

As a general proposition, options to subscribe for ordinary fully paid shares in a company have value. Various factors impact upon the value of options including things such as:

- (a) the period outstanding before the expiry date of the options;
- (b) the exercise price of the options relative to the underlying price or value of the securities into which they may be converted;

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- (c) the proportion of the issued capital as expanded consequent upon exercise represented by the shares issued upon exercise (ie whether or not the shares that might be acquired upon exercise of the options represent a controlling or other significant interest);
- (d) the value of the shares into which the options may be converted; and
- (e) whether or not the options are listed (ie readily capable of being liquidated);

There are various formulae which can be applied to determining the theoretical value of options (including the formula known as the Black-Scholes Model option valuation formula).

The Company sought an independent valuation of the Options from Harris Black. The method used was the Black-Scholes Model, which is the most widely used and recognised model for pricing options. The value of an option calculated by the Black-Scholes Model is a function of the relationship between a number of variables, being the share price, the exercise price, the time to expiry, the risk free interest rate and the volatility of the company's underlying share price.

Inherent in the application of the Black-Scholes Model are a number of inputs, some of which must be assumed. The data relied upon in applying the Black-Scholes Model was:

- the exercise price of the Options being \$0.06;
- an assumed Share price at the date the Options are granted, being \$0.043 (being the Share price as at the date of valuation on 12 November 2012);
- an expiry date of 4 years from the date the Options are proposed to be issued to the Directors;
- a volatility measure of 61.893%;
- a risk-free interest rate of 2.71%; and
- a dividend yield of nil.

Based on this information, the Company has adopted an indicative value for each Option of 1.7 cents.

On that basis, the respective value of the Options to be issued pursuant to Resolutions 7, 8, 9 and 10 are as follows:

A. Anthony McLellan	\$11,900
Corey Nolan	\$13,600
Mark McCauley	\$5,950
James Calaway	<u>\$8,500</u>
TOTAL	<u>\$39,950</u>

Any other information that is reasonably required by shareholders to make a decision and that is known to the Company or any of its Directors

There is no other information known to the Company or any of its directors save and except as follows:

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Market price movement

The Option valuation noted above assumes a market price of the Shares on the date of issue of 4.3 cents per Share, being the market value of the Shares as at the date that the valuation was prepared on 12 November 2012. Since the date of the valuation the Share price has dropped and there is a possibility that the market price of the Shares on the date of issue of the Options will be different to the assumed price of 4.4 cents used for the valuation.

Opportunity costs

The opportunity costs and benefits foregone by the Company issuing the Options to each of the Recipients is the potentially dilutionary impact on the issued share capital of the Company (in the event that the options are exercised). Until exercised, the issue of the Options will not impact upon the number of ordinary shares on issue in the Company. To the extent that upon their exercise the dilutionary impact caused with the issue of shares will be detrimental to the Company, this is more than offset by the advantages accruing from the Company securing the services of experienced and skilled directors on appropriate incentive terms.

It is also considered that the potential increase of value in the Options is dependent upon a concomitant increase in the value of the Company generally.

Taxation consequences

No stamp duty will be payable in respect of the grant of the Options. No GST will be payable by the Company in respect of the grant of the Options (or if it is then it will be recoverable as an input credit).

AASB 2 "Share Based Payments" requires that these payments shall be measured at the more readily determinable fair value of the equity instrument. Under the accounting standards this amount will be expensed in the statement of financial performance. Where the grant date and the vesting date are different the total expenditure calculated will be allocated between the two dates taking into account the terms and conditions attached to the instruments and the counterparties as well as management's assumptions about probabilities of payments and compliance with and attainment of the set out terms and conditions.

Dilutionary effect

If all of the Options granted are exercised by Mr McLellan, Mr Nolan, Mr McCauley and Mr Calaway, the following will be the dilutionary effect on the current issued capital of the Company:

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Director/Other Shareholders	Current Share Holding	% of Total Share Capital (148,290,347 Shares on issue)	Number of Shares upon Exercise of Options to be issued to the Directors ^{1,2}	% of Total Share Capital (150,640,347 Shares on Issue)
Anthony McLellan	Nil	Nil	700,000	0.46%
Corey Nolan	264,215	0.17%	1,064,215	0.71%
Mark McCauley	Nil	Nil	350,000	0.23%
James Calaway	41,869,262	28.23%	42,369,262	28.13%
Other Shareholders	106,156,870	71.58%	106,156,870	70.47%

Notes:

- (1) *Assuming that each of the Directors exercise their Options to be issued to them pursuant to Resolutions 7,8,9 and 10.*
- (2) *Assuming that each of the Directors do not exercise the Options currently held by the them (or their associates) as noted above,*

Trading History

A table of the trading history of the Shares for the preceding 12 month period is as follows:

Current Price	\$0.030
12 month VWAP	\$0.0887
12 month high	\$0.200
12 month low	\$0.030

Note: Calculations based on the Share price as of 10 December 2012.

Listing Rule 10.11

Listing Rule 10.11 requires an entity to obtain the approval of shareholders to an issue of securities to a related party. Mr McLellan, Mr Nolan, Mr McCauley and Mr Calaway, being Directors of the Company, are related parties. Accordingly, because the issue of the Options will result in the Company issuing securities to related parties, approval under Listing Rule 10.11 is required.

For the purposes of Listing Rule 10.13, the Company advises as follows:

- The maximum number of Options to be issued to Mr McLellan is 700,000 Options.

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- The maximum number of Options to be issued to Mr Nolan is 800,000 Options
- The maximum number of Options to be issued to Mr McCauley is 350,000 Options
- The maximum number of Options to be issued to Mr Calaway is 500,000 Options.
- The Options are intended to be granted as soon as possible following the Meeting, but in any event, within 1 month of the date of the Meeting.
- The Options are being issued for nil consideration.
- No funds are being raised by the grant of the Options.

In accordance with Listing Rule 7.2, as approval is being sought under Listing Rule 10.11, approval is not required to be obtained under Listing Rule 7.1.

Save as set out in this Explanatory Memorandum, the Directors are not aware of any other information that will be reasonably required by Shareholders to make a decision in relation to benefits contemplated by the proposed Resolutions 7,8,9 and 10.

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5. Voting Entitlement

For the purposes of determining voting entitlements at the Meeting, Shares will be taken to be held by the persons who are registered as holding the Shares at 2:00pm (Brisbane time) on Saturday, 19 January 2013. Accordingly, transactions registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

6. Action to be taken by Shareholders

Shareholders should read the Explanatory Memorandum carefully before voting on the Resolutions.

A Proxy Form is attached to this Notice. This is to be used by Shareholders if they wish to appoint a representative (a "proxy") to vote in their place. All Shareholders are invited and encouraged to attend the Meeting or, if they are unable to attend in person, to sign and return the Proxy Form to the Company in accordance with the instructions set out on the Proxy Form.

7. Interpretation

Director Fee and Remuneration Sacrifice Plan or Plan means the plan described in Section 3 of the Explanatory Memorandum

Andes Investors means Andes Investors LLC, an entity associated with Mr James Calaway (who is a Director of the Company)

ASX means ASX Limited

Corporations Act means the *Corporations Act 2001 (Cth)*

Independent Expert's Report means the report of BDO on the fairness and reasonableness of the exercise of the Options, the subject of Resolution 1, which is **attached** as Annexure A.

Option means an option to subscribe for Shares

Shareholders means holders of Shares

Shares means fully paid ordinary shares in the capital of the Company

Rights Issue means the pro-rata, non-renounceable entitlement offer described in Section 2 of the Explanatory Memorandum.

Rights Issue Options means those Options exercisable at \$0.06 each on or before 9 April 2014

Any inquiries in relation to the Resolutions or the Explanatory Memorandum should be directed to Linda Scott (Company Secretary):

*Level 8, 26 Wharf Street, Brisbane, Qld 4000
(07) 3221 7770*

Annexure A – Summary of Terms of Director Fee Sacrifice Plan

General

The purpose of the Plan is to pay Directors of the Company shares in lieu of all or part of their fees or executive remuneration and to prescribe the terms and conditions that govern such payment.

Eligible Participants

Both Executive and Non-Executive Directors who receive a written invitation from the Company to participate in the Plan.

Acceptance

A Director may only accept the Invitation to participate in the Plan by returning to the Company a duly completed and signed acceptance form

Shares to be issued under the Plan

By accepting the invitation to participate in the Plan, each Director acknowledges and agrees that the entire amount of their fee specified in the invitation (excluding all liabilities relating to employment of the director including superannuation, PAYG and payroll tax), will be issued in Shares and that they will not receive that part of their fee or executive remuneration in the form of cash or otherwise.

Term

Directors will be bound by the Plan until the earlier of the following to occur:

- (a) the Plan is suspended or terminated by the Board;
- (b) a Director provides 30 days written notice to the Company that the Director no longer wishes to participate in the Plan; or
- (c) if a Director stops being a Director of the Company

Rights in respect of Shares

Shares acquired as a result of this Plan will upon allotment rank pari passu in all respects with other Shares.

Administration

The Plan is administered by the Board, which has discretion to determine appropriate procedures for its administration.

Plan Costs

Any brokerage, commission, stamp duty or other transaction costs incurred in connection with any issue or purchase of Shares under the Plan will be taken into account for the purpose of working out the number of Shares to be acquired by a Director under the Plan, unless the Board decides otherwise.

Any brokerage, commission, stamp duty or other transaction costs in connection with the disposal of a Director's Shares acquired under the Plan will be paid for by the Director, unless the Board decides otherwise.

Listing Rules

The terms and conditions of the Plan must at all times comply with the Listing Rules. If there is any inconsistency between the terms and conditions of the Plan and the Listing Rules then the Listing Rules will prevail.

Annexure A – Summary of Terms of Director Fee Sacrifice Plan

Termination

The Plan may be terminated or suspended at any time by resolution of the Directors without notice to the Participants. The suspension or termination will not affect any existing issue of Shares already made under the Plan and the terms of the Plan will continue to apply to such issued Shares.

Annexure B –Option Terms

Terms and conditions of Options

A summary of the material terms and conditions of the Options to be issued to Mr McLellan, Mr Nolan, Mr McCauley and Mr Calaway is set out below:

1. The securities to be issued to each option holder are options to subscribe for fully paid Shares (**Options**).
2. The Options shall be issued for no consideration;
3. The exercise price of each Option is \$0.06 (**Exercise Price**);
4. The Options will vest immediately upon issue;
5. The Options will expire on the earlier of:
 - (a) Four years from the date of issue;
 - (b) The date being 3 months after the Director ceases to be a Director of the Company, (**Expiry Date**);
6. The Options will be transferable in whole or in part;
7. The Options may be exercised at any time wholly or in part by delivering a duly completed form of notice of exercise together with a cheque for the Exercise Price per Option to the Company at any time on or after the date of issue of the Options and on or before the Expiry Date;
8. Upon the valid exercise of the Options and payment of the Exercise Price, the Company will issue fully paid ordinary shares ranking pari passu with the then issued ordinary shares;
9. Option holders do not have any right to participate in new issues of securities in the Company made to shareholders generally. The Company will, where required pursuant to the ASX Listing Rules, provide Option holders with notice prior to the books record date (to determine entitlements to any new issue of securities made to shareholders generally) to exercise the Options, in accordance with the requirements of the Listing Rules.
10. Option holders do not participate in any dividends unless the Options are exercised and the resultant shares of the Company are issued prior to the record date to determine entitlements to the dividend;
11. In the event of any reconstruction (including consolidation, subdivision, reduction or return) of the issued capital of the Company:
 - (a) the number of Options, the Exercise Price of the Options, or both will be reconstructed (as appropriate) in a manner consistent with the ASX Listing Rules as applicable at the time of reconstruction, but with the intention that such reconstruction will not result in any benefits being conferred on the holders of the Options which are not conferred on shareholders; and
 - (b) subject to the provisions with respect to rounding of entitlements as sanctioned by a meeting of shareholders approving a reconstruction of capital, in all other respects the terms for the exercise of the Options will remain unchanged;
12. If there is a pro rata issue (except a bonus issue), the Exercise Price of an Option may be reduced according to the following formula:

$$O^n = O - \frac{E [P - (S + D)]}{N + 1}$$

Annexure B –Option Terms

Where:

- O^n = the new exercise price of the Option;
- O = the old exercise price of the Option;
- E = the number of underlying securities into which one Option is exercisable;
- P = the average market price per security (weighted by reference to volume) of the underlying securities during the 5 trading days ending on the day before the ex right date or the ex entitlements date;
- S = the subscription price for a security under the pro rata issue;
- D = dividend due but not yet paid on the existing underlying securities (except those to be issued under the pro rata issue);
- N = the number of securities with rights or entitlements that must be held to receive a right to one new security.
13. If there is a bonus issue to the holders of shares in the Company, the number of shares over which the Option is exercisable may be increased by the number of shares which the Option holder would have received if the Option had been exercised before the record date for the bonus issue;
14. The terms of the Options shall only be changed if holders (whose votes are not to be disregarded) of ordinary shares in the Company approve of such a change. However, the terms of the Options shall not be changed to reduce the Exercise Price, increase the number of Options or change any period for exercise of the Options;
15. The Company does not intend to apply for listing of the Options on the ASX; and
16. The Company shall apply for listing of the resultant shares of the Company issued upon exercise of any Option.

FOR ALL ENQUIRIES CALL:
(within Australia) 1300 737 760
(outside Australia) +61 2 9290 9600

FACSIMILE
+61 2 9290 9655

ALL CORRESPONDENCE TO:
Boardroom Pty Limited
GPO Box 3993
Sydney NSW 2001
Australia

Your Address
This is your address as it appears on the company's share register. If this is incorrect, please mark the box with an "X" and make the correction on the form. Securityholders sponsored by a broker should advise your broker of any changes. **Please note, you cannot change ownership of your securities using this form.**

YOUR VOTE IS IMPORTANT

FOR YOUR VOTE TO BE EFFECTIVE IT MUST BE RECORDED BEFORE 2:00pm
(Brisbane Time) SATURDAY 19TH JANUARY 2013

TO VOTE ONLINE

Reference Number:
Please note it is important you keep this confidential



STEP 1 : VISIT www.boardroomlimited.com.au/vote/elementosegm2013
STEP 2: Enter your holding/Investment type
STEP 3: Enter your Reference Number and VAC:

TO VOTE BY COMPLETING THE PROXY FORM

STEP 1 Appointment of Proxy

Indicate here who you want to appoint as your Proxy
If you wish to appoint the Chairman of the Meeting as your proxy, mark the box. If you wish to appoint someone other than the Chairman of the Meeting as your proxy please write the full name of that individual or body corporate. If you leave this section blank, or your named proxy does not attend the meeting, the Chairman of the Meeting will be your proxy. A proxy need not be a security holder of the company. Do not write the name of the issuer company or the registered securityholder in the space.

Proxy which is a Body Corporate

Where a body corporate is appointed as your proxy, the representative of that body corporate attending the meeting must have provided an "Appointment of Corporate Representative" prior to admission. An Appointment of Corporate Representative form can be obtained from the company's securities registry.

Appointment of a Second Proxy

You are entitled to appoint up to two proxies to attend the meeting and vote on a poll. If you wish to appoint a second proxy, an additional Proxy Form may be obtained by telephoning the company's securities registry or you may copy this form.

To appoint a second proxy you must:

- (a) complete two Proxy Forms. On each Proxy Form state the percentage of your voting rights or the number of securities applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded.
- (b) return both forms together in the same envelope.

STEP 2 Voting Directions to your Proxy

You can tell your Proxy how to vote

To direct your proxy how to vote, place a mark in one of the boxes opposite each item of business. All your securities will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of securities you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on a given item, your proxy may vote as he or she chooses (subject to compliance with the Corporations Act, the Listing Rules and the appointment directions overleaf). If you mark more than one box on an item your vote on that item will be invalid.

STEP 3 Sign the Form

The form **must** be signed as follows:

Individual: This form is to be signed by the securityholder.

Joint Holding: where the holding is in more than one name, all the securityholders must sign.

Power of Attorney: to sign under a Power of Attorney, you must have already lodged it with the registry. Alternatively, attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: this form must be signed by a Director jointly with either another Director or a Company Secretary. Where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. **Please indicate the office held by signing in the appropriate place.**

STEP 4 Lodgement of a Proxy

This Proxy Form (and any Power of Attorney under which it is signed) must be received at an address given below not later than 48 hours before the commencement of the meeting at 2:00 pm (Brisbane time) on Monday, 21st January 2013. Any Proxy Form received after that time will not be valid for the scheduled meeting.

Proxies may be lodged using the reply paid envelope or:

BY MAIL - Share Registry – Boardroom Pty Limited, GPO Box 3993, Sydney NSW 2001 Australia

BY FAX - + 61 2 9290 9655

IN PERSON - Share Registry – Boardroom Pty Limited, Level 7, 207 Kent Street, Sydney NSW 2000 Australia

Vote online at:

www.boardroomlimited.com.au/vote/elementosegm2013
or turnover to complete the Form →

Attending the Meeting

If you wish to attend the meeting please bring this form with you to assist registration.

Elementos Limited

STEP 1 - Appointment of Proxy

I/We being a member/s of Elementos Limited and entitled to attend and vote hereby appoint

the Chairman of the Meeting (mark with an 'X') **OR**

If you are not appointing the Chairman of the Meeting as your proxy please write here the full name of the individual or body corporate (excluding the registered Securityholder) you are appointing as your proxy.

or failing the individual or body corporate named, or if no individual or body corporate is named, the Chairman of the Meeting, as my/our proxy at the **Extraordinary General Meeting of Elementos Limited to be held at the offices of HopgoodGanim, Level 7, Waterfront Place, 1 Eagle Street, Brisbane QLD 4000 on Monday the 21st January 2013 at 2:00pm (Brisbane time)** and at any adjournment of that meeting, to act on my/our behalf and to vote in accordance with the following directions or if no directions have been given, as the proxy sees fit.

If the Chairman of the Meeting is appointed as your proxy or may be appointed by default, and you do **not** wish to direct your proxy how to vote as your proxy in respect of Resolutions 2, 3 and 7, please mark this box. By marking this box, you acknowledge that the Chairman of the Meeting may exercise your proxy even if he has an interest in the outcome of the resolutions and that votes cast by the Chairman of the Meeting for any of the resolutions, other than as proxy holder, will be disregarded because of that interest. If you do not mark this box, and you have not directed your proxy how to vote, the Chairman of the Meeting will not cast your votes on the resolutions and your votes will not be counted in calculating the required majority if a poll is called. By marking this box I/we acknowledge the Chairman of the Meeting can exercise my/our proxy even though he has an interest in the outcome of the resolution and unless a specific voting direction has been specified below, the Chairman of the Meeting is directed to vote in accordance with his voting intention as set out below.

If the Chairman of the Meeting is appointed (or by default becomes) my/our proxy, I/we expressly authorise the Chairman of the Meeting to exercise my/our proxy on Resolutions 2 to 10 (except where I/we have indicated a different voting intention below) even though Resolutions 2 to 10 are connected directly or indirectly with the remuneration of a member of the Key Management Personnel which includes the Chairman.

The Chair intends to vote all undirected proxies in favour of each item of business. If the Chairman of the Meeting is (or becomes) your proxy you can direct the Chairman to vote for or against or abstain from voting by marking the appropriate box in step 2 below.

STEP 2 - Voting directions to your Proxy – please mark to indicate your directions

Ordinary Business

		For	Against	Abstain*
Resolution 1	Approval to issue up to 14,965,986 shares to Andes Investors LLC on exercise of the Rights Issue Options	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 2	Director Participation in the Director Fee and Remuneration Sacrifice Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 3	Approval for Mr A. Anthony McLellan to acquire Shares under the Director Fee and Remuneration Sacrifice Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 4	Approval for Mr Corey Nolan to acquire Shares under the Director Fee and Remuneration Sacrifice Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 5	Approval for Mr Mark McCauley to acquire Shares under the Director Fee and Remuneration Sacrifice Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 6	Approval for Mr James Calaway to acquire Shares under the Director Fee and Remuneration Sacrifice Plan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 7	Issue of 700,000 Options to Mr A. Anthony McLellan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 8	Issue of 800,000 Options to Mr Corey Nolan	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 9	Issue of 350,000 Options to Mr Mark McCauley	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Resolution 10	Issue of 500,000 Options to Mr James Calaway	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

In addition to the intentions advised above, the Chairman of the Meeting intends to vote all undirected proxies in favour of each of the items of business.

*If you mark the Abstain box for a particular item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

STEP 3 - PLEASE SIGN HERE This section *must* be signed in accordance with the instructions overleaf to enable your directions to be implemented.

Individual or Securityholder 1	Securityholder 2	Securityholder 3
<input style="width: 250px; height: 40px;" type="text"/>	<input style="width: 250px; height: 40px;" type="text"/>	<input style="width: 250px; height: 40px;" type="text"/>
Sole Director and Sole Company Secretary Contact Name	Director Contact Daytime Telephone	Director/Company Secretary Date / /



ELEMENTOS LTD
Independent Expert's Report

November 2012



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Financial Services Guide

The Financial Services Guide ('FSG') is provided to comply with the legal requirements imposed by the Corporations Act and includes important information regarding the general financial product advice contained in this report. The FSG also includes general information about BDO Corporate Finance (QLD) Ltd ('BDO CFQ' or 'we', 'us' or 'our'), including the financial services we are authorised to provide, our remuneration and our dispute resolution.

BDO CFQ holds an Australian Financial Services Licence to provide the following services:

- a) Financial product advice in relation to deposit and payment products (limited to basic deposit products and deposit products other than basic deposit products), securities, derivatives, managed investments schemes, superannuation, and government debentures, stocks and bonds; and
- b) Arranging to deal in financial products mentioned in a) above, with the exception of derivatives.

General Financial Product Advice

This report sets out what is described as general financial product advice. This report does not consider personal objectives, individual financial position or needs and therefore does not represent personal financial product advice. Consequently any person using this report must consider their own objectives, financial situation and needs. They may wish to obtain professional advice to assist in this assessment.

The Assignment

BDO Corporate Finance (QLD) Ltd ABN 54 010 185 725, Australian Financial Services Licence No. 245513 understands that Andes Investors LLC ('Andes Investors') received a total of 14,965,986 listed options ('the Options') in Elementos Ltd ('Elementos' or 'the Company') following the close of the non-renounceable entitlement offer completed by Elementos in October 2012. BDO CFQ also understands that Andes Investors is an entity associated with Mr James Calaway ('Mr Calaway'), a non-executive director of Elementos.

As entities associated with Mr Calaway (including Andes Investors) already hold 28.23% of the shares in Elementos, the Company is seeking shareholder approval in accordance with item 7 of section 611 of the Corporations Act 2001 ('the Act') to allow the entities associated with Mr Calaway to further increase their relevant interest in Elementos from a starting point that is above 20% and below 90% via the exercise of the Options held by Andes Investors ('the Proposed Transaction').

BDO CFQ has been engaged by Elementos to provide general financial product advice in the form of a report in relation to a financial product. Specifically, BDO CFQ has been engaged to prepare an independent expert's report which provides our opinion on whether the Proposed Transaction is fair and reasonable to the non-associated Elementos shareholders.

This report cannot be relied upon for any purpose other than the purpose mentioned above and cannot be relied upon by any person or entity other than those mentioned above, unless we have provided our express consent in writing to do so. A shareholder's decision to vote in favour of or against the Proposed Transaction is likely to be influenced by the shareholder's particular circumstances, for example, the shareholder's risk profile. Each shareholder should obtain their own professional advice in relation to their own circumstances.



Fees, commissions and other benefits we may receive

We charge a fee for providing reports. The fees are negotiated with the party who engages us to provide a report. We estimate that our fees for the preparation of this report will be approximately \$30,000 plus GST. Fees are usually charged as a fixed amount or on an hourly basis depending on the terms of the agreement with the engaging party. Our fees are not contingent on the outcome of the Proposed Transaction.

Except for the fees referred to above, neither BDO CFQ, nor any of its directors, employees or related entities, receive any pecuniary benefit or other benefit, directly or indirectly, for or in connection with the provision of this report.

Directors of BDO CFQ may receive a share in the profits of BDO Group Holdings (QLD) Pty Ltd, the parent entity of BDO CFQ. All directors and employees of BDO Group Holdings (QLD) Pty Ltd and its subsidiaries (including BDO CFQ) are entitled to receive a salary. Where a director of BDO CFQ is a shareholder of BDO Group Holdings (QLD) Pty Ltd, the person is entitled to share in the profits of BDO Group Holdings (QLD) Pty Ltd.

Associations and relationships

From time to time BDO CFQ or its related entities may provide professional services to issuers of financial products in the ordinary course of its business. These services may include audit, tax and business advisory services. BDO Audit (QLD) Pty Ltd has previously provided audit services to Elementos and is currently the engaged auditor of Elementos. BDO (QLD) Pty Ltd has also previously provided tax services to Elementos. The signatory to this report is not any way involved in the provision of audit or tax services to Elementos. The signatory to this report does not hold any shares in Elementos and no such shares have ever been held by the signatory.

To prepare our reports, including this report, we may use researched information provided by research facilities to which we subscribe or which is publicly available. Reference has been made to the sources of information in our report, where applicable. Research fees are not included in the fee details provided in this report.

Complaints

We are members of the Financial Ombudsman Service. Any complaint about our service should be in writing and sent to BDO Corporate Finance (QLD) Ltd, GPO Box 457, Brisbane Qld 4001.

We will endeavour to resolve the complaint quickly and fairly. If the complaint cannot be satisfied within 45 days of written notification, there is a right to lodge a complaint with the Financial Ombudsman Service. They can be contacted on 1300 780 808. This service is provided free of charge.

If the complaint involves ethical conduct, a complaint may be lodged in writing with the Institute of Chartered Accountants, Queensland Branch, GPO Box 2054, Brisbane QLD 4001. The Australian Securities and Investment Commission (ASIC) also has an Infoline on 1300 300 630 which can be used to make a complaint and obtain information about investor rights.



Contact Details

BDO Corporate Finance (QLD) Ltd

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Glossary

Reference	Definition
Act, the	Corporations Act 2001
Andes Investors	Andes Investors LLC, an entity related to Mr Calaway that holds the Options
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ASX Listing Rules, the	The rules applicable to ASX listed companies
BDO CFQ	BDO Corporate Finance (QLD) Ltd
BDO Person	BDO CFQ, BDO Group Holdings (QLD) Pty Ltd and any of its subsidiary or related entities, or any of the directors, partners agents or associates thereof
Company, the	Elementos Ltd
EBIT	Earnings before interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
Elementos	Elementos Ltd
Mr Calaway	Mr James Calaway, a non-executive director of Elementos
Offer, the	The non-renounceable entitlement offer completed by Elementos in October 2012.
Options, the	The 14,965,986 options over Elementos shares received by Andes Investors following the close of the Offer
Patersons	Patersons Securities Ltd
Proposed Transaction, the	To allow the entities associated with Mr Calaway to further increase their relevant interest in Elementos from a starting point that is above 20% and below 90% via the exercise of the Options held by Andes Investors
RGs	Regulatory Guides published by the Australian Securities and Investments Commission
RG 76	Regulatory Guide 76: <i>Related Party Transactions</i> published by the Australian Securities and Investments Commission
RG 111	Regulatory Guide 111: <i>Content of Expert Reports</i> published by the Australian Securities and Investments Commission
Report, this	This independent expert's report prepared by BDO CFQ
Sub-Underwriting Agreement, the	The sub-underwriting agreement entered into by Andes Investors with Patersons under which Andes Investors agreed to subscribe for up to the first 22,005,543 Elementos shares and 11,002,772 Elementos options not taken-up by other eligible Elementos shareholders in accordance with the terms of the Offer
VWAP	Volume Weighted Average Price



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AUSTRALIA

The Shareholders
C/- The Directors
Elementos Ltd
Level 8, 26 Wharf Street
BRISBANE QLD 4000

15 November 2012

Dear Shareholders

INDEPENDENT EXPERT'S REPORT

1.0 Introduction

BDO Corporate Finance (QLD) Ltd ('BDO CFQ') understands that Andes Investors LLC ('Andes Investors') received a total of 14,965,986 listed options ('the Options') in Elementos Ltd ('Elementos' or 'the Company') following the close of a non-renounceable entitlement offer completed by Elementos in October 2012 ('the Offer'). BDO CFQ also understands that Andes Investors is an entity associated with Mr James Calaway ('Mr Calaway'), a non-executive director of Elementos.

As entities associated with Mr Calaway (including Andes Investors) already hold 28.23% of the shares in Elementos, the Company is seeking shareholder approval in accordance with item 7 of section 611 of the Corporations Act 2001 ('the Act') to allow the entities associated with Mr Calaway to further increase their relevant interest in Elementos from a starting point that is above 20% and below 90% via the exercise of the Options held by Andes Investors ('the Proposed Transaction').

A more detailed discussion of the Proposed Transaction is set out in Section 3.0 of this Report.

BDO CFQ has been engaged by the directors of Elementos to prepare an independent expert's report ('this Report') which provides our opinion on whether the Proposed Transaction is fair and reasonable to the non-associated Elementos shareholders. The scope of this Report and our basis for assessing the Proposed Transaction is set out in detail in Section 4.0 of this Report.

We understand that this Report will be provided to the non-associated Elementos shareholders to assist them to make an informed decision on whether to vote in favour of or against the Proposed Transaction. Apart from the purpose stated directly above, this Report cannot be used or relied on for any other purpose or by any other person or entity.

This Report does not address circumstances specific to individual Elementos shareholders. An Elementos shareholder's decision to vote in favour of or against the Proposed Transaction is likely to be influenced by their own particular circumstances including, for example, their risk profile. Elementos shareholders should obtain their own professional advice in relation to their own circumstances.

This Report should be read in full, including the assumptions underpinning our work, together with the other information provided to Elementos shareholders in conjunction with this Report (including the Notice of Meeting and Explanatory Memorandum).

2.0 Summary of Opinion

This section is a summary of our opinion and does not substitute for a complete reading of this Report.

We recommend that Elementos shareholders consult their own professional advisers, carefully read all relevant documentation provided (including the Notice of Meeting and Explanatory Memorandum) and consider their own specific circumstances before voting in favour of or against the Proposed Transaction.

2.1 Assessment of Fairness

Our assessment of the fairness of the Proposed Transaction to the non-associated Elementos shareholders is set out in Section 6.0 of this Report.

In our view, the fairness of the Proposed Transaction to the non-associated Elementos shareholders can be assessed by:

- Determining the fair value of the consideration provided by Andes Investors for each share in Elementos upon the exercise of the Options; and
- Determining whether the consideration provided by Andes Investors for each share in Elementos upon the exercise of the Options includes a premium for control.

For completeness we note that it is not possible to determine, as at the date of this Report, if or when Andes Investors might exercise the Options. Further it is not possible to determine, as at the date of this Report, what the value and share price of Elementos might be as at the date any or all of the Options are exercised.

It is our view that Andes Investors is likely to exercise the Options only if the Elementos share price is greater than or equal to the exercise price of the Options. Exercising the Options when they are either 'in the money' or 'at the money' will enable Andes Investors to purchase additional shares in Elementos for a price that is equal to or less than their market price. In our view, Andes Investors is unlikely to exercise the Options if they are 'out of the money', as in that circumstance additional shares in Elementos could be acquired on market for a price that is less than the exercise price of the Options.

As the Options are likely to be exercised only if they are either 'in the money' or 'at the money', the value of the consideration offered by Andes Investors for each Elementos share is likely to be less than or equal to the market price of a share in Elementos. A premium for control will exist if the consideration offered for each Elementos share is greater than the market price of a share in Elementos, as the market price of a share in Elementos represents the value of an Elementos share on a minority interest basis. Accordingly, it is likely that no premium for control will be paid where the Options are exercised 'in the money' or 'at the money'.

Having regard to the above discussion, it is our view that:

- The share price and/or value of a share in Elementos at a future date when the Options might be exercised cannot be determined as at the date of this Report; and
- The value of the consideration offered by Andes Investors under the terms of the Proposed Transaction is not likely to include a premium for control as at the date any or all of the Options are exercised.

Regulatory Guide 111: *Content of Expert Reports* ('RG 111') published by the Australian Securities and Investments Commission ('ASIC') states that an issue of shares by a company prohibited under section 606 of the Act but which may be approved under item 7 of section 611 of the Act is required to be analysed as though it were a control transaction. Having regard to the requirements of RG 111, it is therefore necessary for a control premium to be observed in relation to an issue of shares prohibited under section 606 of the Act but approved under item 7 of section 611 of the Act in order for the issue of shares to be considered fair to non-associated Elementos shareholders.

As the consideration offered by Andes Investors upon the exercise of the Options is not likely to include a premium for control, it is our view that the Proposed Transaction cannot be determined to be fair to the non-associated Elementos shareholders as at the date of this Report. It follows that as we are unable to determine that the Proposed Transaction is fair to the non-associated Elementos shareholders we conclude that the Proposed Transaction is **not fair** to the non-associated Elementos shareholders.

2.2 Assessment of Reasonableness

Our assessment of the reasonableness of the Proposed Transaction to the non-associated Elementos shareholders is set out in Section 7.0 of this Report. To assess whether the Proposed Transaction is reasonable to the non-associated Elementos shareholders, we have:

- Considered the advantages to the non-associated Elementos shareholders of approving the Proposed Transaction;
- Considered the disadvantages to the non-associated Elementos shareholders of approving the Proposed Transaction; and
- Considered the position of non-associated Elementos shareholders in the event the Proposed Transaction is not approved.

Table 2.1 below summarises the advantages and disadvantages to the non-associated Elementos shareholders of approving the Proposed Transaction.

Table 2.1: Summary of Advantages and Disadvantages of the Proposed Transaction

Advantages	Disadvantages
<ul style="list-style-type: none"> • Cornerstone investors in Elementos (the entities associated with Mr Calaway) will have the opportunity to continue providing their support to the Company via the exercise of the Options. <p>It is our view that it is appropriate for Elementos to seek the support of cornerstone investors such as the entities associated with Mr Calaway, particularly given the current uncertainty in global equity markets and the increased difficulty of raising new capital.</p>	<ul style="list-style-type: none"> • A premium for control is not likely to be paid by Andes Investors for each share in Elementos upon the exercise of the Options
<ul style="list-style-type: none"> • Capital raised through any exercise of the Options does not attract further broking fees and other capital raising costs ordinarily incurred 	

Source: BDO CFQ Analysis

We note the entities associated with Mr Calaway hold an existing interest in more than 20% of the shares on issue in Elementos and so, irrespective of whether the Proposed Transaction is approved, already have the ability to:

- exert significant influence over the nomination of Elementos board members and, consequently, the future direction of the Company; and
- block special resolutions at general meetings.

If the Proposed Transaction is not approved, Andes Investors will not have the right to exercise the Options. As a result, the entities associated with Mr Calaway will not be able to further increase their relevant interest in Elementos shares via the exercise of the Options and, excluding any other acquisitions and/or disposals of Elementos shares, will continue to hold a constant number of Elementos shares.

We note that the entities associated with Mr Calaway may choose to increase their interest in Elementos over time under the creep provisions of the Act. The creep provisions set out in the Act entitle the entities associated with Mr Calaway to acquire an additional 3.0% interest in the shares of Elementos every 6 months. The entities associated with Mr Calaway may still therefore increase their interest in Elementos shares over time even if the Proposed Transaction is not approved.

We also note that Andes Investors is entitled to transfer the Options, in whole or in part, to another party at any time. Andes Investors may therefore choose to transfer the Options to another party if the Proposed Transaction is not approved. As a result, we note that non-associated shareholders may still have their interests diluted by another party if the Proposed Transaction is not approved. It is also possible that attempts to dispose of a relatively large number of Options by Andes Investors may depress the market price of the Options if the demand for the Options is not sufficient.

Having regard to the above analysis, it is our view that the Proposed Transaction is **reasonable** to the non-associated Elementos shareholders as at the date of this Report.

2.3 Other Considerations

It is important that Elementos shareholders consider all information provided to them, including the information in this Report, before deciding whether to vote in favour of or against the Proposed Transaction.

Our assessment of whether or not the Proposed Transaction is fair and reasonable to non-associated Elementos shareholders is based on the information available as at the date of this Report. A shareholder's decision to vote in favour of or against the Proposed Transaction should be made having regard to all information available from the Company and any other relevant publicly available information up to and including the date of the General Meeting at which the shareholder will be asked to vote.

We recommend that Elementos shareholders consult their own professional advisers and consider their own specific circumstances before forming a view on the Proposed Transaction.

3.0 Overview of the Proposed Transaction

3.1 Description of the Offer

3.1.1 Overview of the Offer

On 28 August 2012, Elementos announced a non-renounceable entitlement offer (referred to as ‘the Offer’ in this Report) to raise \$2,306,739 to assist with the further development of the Tamaya copper project. Under the terms of the Offer, each eligible Elementos shareholder was offered the right to:

- acquire four new Elementos shares for every five Elementos shares they held at a discounted price of \$0.035 per new share; and
- receive one free option with an exercise price of \$0.06 and an expiry date of 9 April 2014 for every two new shares subscribed for.

A total of 65,906,821 new shares in Elementos and 32,953,451 new options in Elementos were issued in accordance with the terms of the Offer.

Under the terms of the Offer, new shares that were not acquired by eligible Elementos shareholders were placed into a pool of shares referred to as ‘additional new shares’. Eligible Elementos shareholders who had accepted their entitlement in full were entitled to apply for ‘additional new shares’ at the offer price of \$0.035 per share. Those ‘additional new shares’ that were not subsequently subscribed for by eligible Elementos shareholders in accordance with the terms of the Offer were collectively referred to as ‘shortfall shares’.¹

The Offer was underwritten by Patersons Securities Ltd (‘Patersons’) for up to 42,234,924 new shares (representing \$1,513,222) with 21,117,462 entitlement options attached. Patersons subsequently entered into a sub-underwriting agreement (‘the Sub-Underwriting Agreement’) with Andes Investors. Under the terms of the Sub-Underwriting Agreement, Andes Investors was required (and entitled) to subscribe for up to the first 22,005,543 shortfall shares and 11,002,772 new options (representing a commitment of \$770,194) after the close of the Offer and after allowing for successful applications of additional new shares.²

At the date the Offer was announced, Andes Investors held 9,908,035 shares in Elementos, representing 12.03% of the Elementos shares on issue. In aggregate, entities associated with Mr Calaway (including Andes Investors) had a relevant interest in 11,937,291 Elementos shares at the time the Sub-Underwriting Agreement was entered into, representing 14.49% of the Elementos shares on issue.

¹ The directors of Elementos (and any other related parties of Elementos) were prohibited from applying for ‘additional new shares’, however they were entitled to take up their entitlement (if any) and/or participate as sub-underwriters to the Offer.

² Mr James Calaway received a sub-underwriting fee from Patersons equal to 3% of the sub-underwriting commitment as compensation for entering into the Sub-Underwriting Agreement.

3.1.2 New Shares Received by Entities Associated with Mr Calaway Following the Close of the Offer

Following the close of the offer, Andes Investors was required to subscribe for the full amount of the shortfall shares in Elementos it had agreed to sub-underwrite in accordance with the terms of the Sub-Underwriting Agreement.

Table 3.1 below sets out the following information for each of the entities associated with Mr Calaway:

- the number of existing shares in Elementos held by each entity associated with Mr Calaway prior to the close of the Offer;
- the number of new shares in Elementos taken-up by each entity associated with Mr Calaway in accordance with their entitlements under the Offer; and
- the number of new shares in Elementos received by Andes Investors in accordance with the terms of the Sub-Underwriting Agreement following the close of the Offer.

Table 3.1: Elementos Shares Held by Entities Associated with Mr Calaway Following the Close of the Offer

Entity	Existing Shares Held Prior to the Close of the Offer	New Shares Taken-Up Under Entitlements	New Shares Received Under the Sub-Underwriting Agreement	Total Shares
Andes Investors LLC	9,908,035	7,926,428	22,005,543	39,840,006
Lithium Investors LLC ³	2,029,256	-	-	2,029,256
Total	11,937,291	7,926,428	22,005,543	41,869,262

Source: Elementos Appendix 3B and Appendix 3Y

Table 3.1 shows that Andes Investors received a total of 29,931,971 new shares in Elementos following the close of the Offer, comprising 7,926,428 new shares taken-up under their entitlement and 22,005,543 new shares taken-up under the terms of the Sub-Underwriting Agreement.

Following the close of the Offer, Andes Investors held 39,840,006 shares in Elementos, representing 26.87% of the Elementos shares on issue. In aggregate, entities associated with Mr Calaway (including Andes Investors) had a relevant interest in 41,869,262 Elementos shares following the close of the Offer, representing 28.23% of the Elementos shares on issue.

For completeness, we note the entities associated with Mr Calaway were able to increase their interest in Elementos shares from a level below 20% to a level above 20% without shareholder approval under item 13 of section 611 of the Act. Item 13 of section 611 of the Act allows an entity to acquire a relevant interest in more than 20% of a company's shares if the entity acquired the company's shares in its capacity as an underwriter or sub-underwriter to an issue of the company's shares.

³ Lithium Investors LLC did not take-up their entitlement to receive new Elementos shares in accordance with the terms of the Offer.

3.1.3 New Options Received by Entities Associated with Mr Calaway Following the Close of the Offer

Following the close of the offer, Andes Investors was entitled to subscribe for the full amount of the new options in Elementos it had agreed to sub-underwrite in accordance with the terms of the Sub-Underwriting Agreement.

Table 3.2 below sets out the following information for each of the entities associated with Mr Calaway:

- the number of options in Elementos held by each entity associated with Mr Calaway prior to the close of the Offer;
- the number of new options in Elementos taken-up by each entity associated with Mr Calaway in accordance with their entitlements under the Offer; and
- the number of new options in Elementos received by Andes Investors in accordance with the terms of the Sub-Underwriting Agreement following the close of the Offer.

Table 3.2: Elementos Options Held by Entities Associated with Mr Calaway Following the Close of the Offer

Entity	Existing Options Held Prior to the Close of the Offer	New Options Taken-Up Under Entitlements	New Options Received Under the Sub-Underwriting Agreement	Total Options
Andes Investors LLC	-	3,963,214	11,002,772	14,965,986
Lithium Investors LLC ⁴	-	-	-	-
James Calaway	1,000,000	-	-	1,000,000
Total	1,000,000	3,963,214	11,002,772	15,965,986

Source: Elementos Appendix 3B and Appendix 3Y

Table 3.2 shows that Andes Investors received a total of 14,965,986 new options in Elementos following the close of the Offer (referred to as ‘the Options’ in this Report), comprising 3,963,214 new options taken-up under their entitlements and 11,002,772 new options taken-up under the terms of the Sub-Underwriting Agreement. All of the Options issued to Andes Investors under the terms of the Offer are listed options with an exercise price of \$0.06 and an expiry date of 9 April 2014.

The 1,000,000 options held by James Calaway are unlisted and were issued to Mr Calaway on 28 March 2011 in accordance with the terms of the Directors’ Share Option Plan. The unlisted options have an exercise price of \$0.333 and have an expiry date of 18 January 2017. The unlisted options will vest 50% when the Elementos share price reaches \$0.40 and 50% when the Elementos share price reaches \$0.45.

Mr Calaway and entities associated with Mr Calaway together hold 15,965,986 Elementos options in total following the close of the Offer.

⁴ Lithium Investors LLC did not take-up their entitlement to receive new Elementos shares in accordance with the terms of the Offer. Accordingly, Lithium Investors LLC was not entitled to receive new options in Elementos in accordance with the terms of the Offer.

3.2 Description of the Proposed Transaction

The entities associated with Mr Calaway currently hold a total of 14,965,986 listed options over Elementos shares following the close of the Offer.

As the entities associated with Mr Calaway currently hold 28.23% of the shares in Elementos, the Company is seeking shareholder approval in accordance with item 7 of section 611 of the Act to allow the entities associated with Mr Calaway to further increase their relevant interest in Elementos from a starting point that is above 20% and below 90% via the exercise of the Options.

In circumstances where the Proposed Transaction is approved and the Options are exercised, the entities associated with Mr Calaway will hold a total of 56,835,248 shares in Elementos. The percentage interest in Elementos this represents will vary depending on how many other option holders decide to exercise their options. Table 3.3 below sets out the percentage interest in Elementos held by the entities associated with Mr Calaway following the exercise of the Options, assuming:

- all of the other option holders exercise their options; and
- no other option holders exercise their options.

Table 3.3: Potential Interest in Elementos Held by the Entities Associated with Mr Calaway Following the Exercise of the Options

	All Other Option Holders Exercise their Options	No Other Option Holders Exercise their Options
Elementos Shares Held by the Entities Associated with Mr Calaway Before the Exercise of the Options	41,869,262	41,869,262
New Elementos Shares Issued to the Entities Associated with Mr Calaway After the Exercise of the Options	14,965,986	14,965,986
Total Elementos Shares Held by the Entities Associated with Mr Calaway After the Exercise of the Options	56,835,248	56,835,248
Total Elementos Shares on Issue Before the Exercise of Options Issued Under the Offer	148,290,347	148,290,347
New Elementos Shares Issued to the Entities Associated with Mr Calaway After the Exercise of the Options	14,965,986	14,965,986
New Elementos Shares Issued to Other Option Holders After the Exercise of the Options they Received Under the Offer	17,987,465	-
Total Elementos Shares on Issue After the Exercise of Options Issued Under the Offer	181,243,798	163,256,333
Percentage Interest Held by the Entities Associated with Mr Calaway	31.36%	34.81%

Source: Elementos Appendix 3B and Appendix 3Y

Table 3.3 shows that the total interest in Elementos held by the entities associated with Mr Calaway following the exercise of the Options ranges between 31.36% and 34.81%, depending on how many other option holders decide to exercise their options. We note that Table 3.3 does not include unlisted options held by the Directors of Elementos issued in accordance with the terms of the Directors' Share Option Plan. We note the unlisted options are 'out of the money' as at the date of this Report.



We note the Options are 'out of the money' as at the date of this Report as the current share price of Elementos of \$0.043 is below the Options' exercise price of \$0.06. We note that Andes Investors may not ever exercise any or all of the Options, even if shareholder approval for the Proposed Transaction is provided. In circumstances where the Options lapse, the entities associated with Mr Calaway will continue to hold an interest in Elementos shares of 28.23%, subject to any other acquisitions and divestments of shares in Elementos by entities associated with Mr Calaway and any other issue of shares made by Elementos.

3.3 Terms and Conditions of the Proposed Transaction

Elementos requires shareholder approval in accordance with item 7 of section 611 of the Act to allow the entities associated with Mr Calaway to further increase their relevant interest in Elementos from a starting point that is above 20% and below 90% via the exercise of the Options.

Andes Investors will not be able to exercise the Options if shareholders do not approve the Proposed Transaction. Accordingly, the entities associated with Mr Calaway will not be able to increase their interest in Elementos via the exercise of the Options if the Proposed Transaction is not approved, outside of any increase of their interest in Elementos otherwise allowed by the Act.

3.4 Rationale for the Proposed Transaction

The non-associated directors of Elementos have agreed to take certain steps to seek shareholder approval for the Proposed Transaction as consideration for Andes Investors having agreed to sub-underwrite a portion of the Offer. These steps include providing non-associated Elementos shareholders with this Report as well as all other information necessary for the non-associated Elementos shareholders to be able to vote on the Proposed Transaction.

After taking into account numerous factors, including the availability of alternative sub-underwriters, the extent of the sub-underwriting commitment and the current state of equity markets generally, the non-associated directors consider that it is reasonable for the Company to seek shareholder approval on behalf of the entities associated with Mr Calaway in the circumstances.

4.0 Scope of the Report and Methodology for Assessment

4.1 Scope of Report

An independent expert, in certain circumstances, must be appointed to meet the requirements of the Act, the regulatory guides ('RGs') of ASIC and the Australian Securities Exchange ('ASX') Listing Rules. We have summarised the requirements of the Act and the ASX Listing Rules in Sections 4.1.1 and 4.1.2 of this Report respectively. We have summarised the guidance provided in the RGs in Section 4.2 of this Report.

BDO CFQ has been appointed as an independent expert to consider the Proposed Transaction and to express an opinion on whether the Proposed Transaction is fair and reasonable to the non-associated shareholders of Elementos. This Report cannot be used by any other person or for any purpose other than the purpose stated directly above.

4.1.1 Requirements of the Act

Section 606 of the Act states that a relevant interest in a listed company cannot be increased from 20% or below to more than 20%, or from a starting point that is above 20% and below 90%, unless one of the exceptions set out in section 611 of the Act is met. As the entities associated with Mr Calaway currently have a relevant interest of 28.23% in Elementos shares, they are prima facie prevented from acquiring any further shares in Elementos unless they meet one of the exemptions set out in section 611 of the Act.

Item 7 of section 611 of the Act provides that one exemption from the requirements of section 606 of the Act is if approval for the acquisition of a relevant interest in shares is received from non-associated shareholders in the form of an ordinary resolution passed at a general meeting. We have been requested to prepare this Report to provide additional information to the non-associated shareholders of Elementos to assist them to form a view on whether to vote in favour of or against the Proposed Transaction.

4.1.2 Requirements of the ASX Listing Rules

We have been instructed that Elementos will not be using this Report or our assessment of the Proposed Transaction for the purpose of complying with the listing requirements of the ASX or any other stock exchange. This Report cannot be used for the purpose of meeting the listing requirements of any stock exchange.

4.2 Assessment Methodology

We have referred to RG 111 when determining the appropriate assessment methodology to adopt in this Report. RG 111 provides guidance in relation to independent expert's reports in a range of circumstances, including those where the expert is required to provide an opinion on whether a transaction is 'fair' and 'reasonable' to shareholders.

RG 111 states that the independent expert's report should explain the particulars of how the transaction was examined and evaluated as well as the results of the examination and evaluation. The report should provide an opinion by the expert stating whether or not, in the opinion of the expert, the proposal is fair and reasonable. RG 111 also provides guidance on common valuation methodologies as well as other matters which should be considered by an expert when completing a valuation.

To meet the ASIC requirements, an expert seeking to determine whether the Proposed Transaction is fair and reasonable should complete the steps set out below.

4.2.1 Step 1 - Fairness

RG 111 states that an issue of shares by a company prohibited under section 606 of the Act but which may be approved under item 7 of section 611 has an effect on the company's shareholding that is comparable to a takeover bid. RG 111 states that such transactions should be analysed as if they were takeover bids under Chapter 6 of the Act.⁵

RG 111 states that a takeover bid can be considered fair if the value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer. In making this comparison, the expert should not consider the percentage holding of the allottee or its associates in the company. Rather, the expert should assume the allottee holds 100% of the company. For this reason, it is inappropriate for an expert to apply a discount on the basis that the shares being acquired represent a minority or portfolio parcel of shares. An issue of shares by a company prohibited under section 606 of the Act but which may be approved under item 7 of section 611 of the Act is required to be analysed as though it were a control transaction.

The Proposed Transaction involves allowing the entities associated with Mr Calaway to further increase their relevant interest in Elementos from a starting point that is above 20% and below 90% via the exercise of the Options. The Proposed Transaction therefore involves an issue of shares prohibited under section 606 of the Act but which may be approved under item 7 of section 611 of the Act. As a result, the Proposed Transaction is required to be analysed as though it were a control transaction in accordance with the requirements of RG 111.

Based on the above, in our view, the fairness of the Proposed Transaction to the non-associated Elementos shareholders can be assessed by:

- Determining the fair value of the consideration provided by Andes Investors for each share in Elementos upon the exercise of the Options; and
- Determining whether the consideration provided by Andes Investors for each share in Elementos upon the exercise of the Options includes a premium for control.

In our view, the Proposed Transaction will not be fair to the non-associated Elementos shareholders if the consideration provided by Andes Investors for each share in Elementos upon the exercise of the Options does not include a premium for control.

⁵ RG 111 states that references to the 'bidder' and the 'target' should be taken to mean the 'allottee' and the 'company' respectively when considering issues of shares prohibited by section 606 of the Act but which may be approved under item 7 section 611 of the Act.

4.2.2 Step 2 - Reasonableness

RG 111 also requires that the expert consider other significant factors to which the non-associated Elementos shareholders may give consideration prior to approving the Proposed Transaction. This includes comparing the likely advantages and disadvantages to the non-associated Elementos shareholders of approving the Proposed Transaction with the position of the non-associated Elementos shareholders if the Proposed Transaction is not approved. This analysis can be classified as an assessment of whether the Proposed Transaction is reasonable to the non-associated Elementos shareholders.

4.2.3 Step 3 - Overall Opinion

Upon completion of steps 1 and 2 above, it may be possible to conclude whether the Proposed Transaction is fair and reasonable to the non-associated Elementos shareholders. We note that under RG 111, the Proposed Transaction is considered to be reasonable if it is fair. It may also be possible to conclude that the Proposed Transaction is reasonable if there are sufficiently valid reasons for the approval, notwithstanding that the Proposed Transaction may not be fair to the non-associated Elementos shareholders.

This Report concludes by providing our opinion as to whether or not the Proposed Transaction is fair and reasonable. While all relevant issues need to be considered before forming an overall opinion, we will assess the fairness and reasonableness issues separately for clarity.

In this Report we have not provided any taxation, legal or other advice in relation to the Proposed Transaction. Other advisors have provided advice on those matters to Elementos in relation to the Proposed Transaction.

In the process of assessing the Proposed Transaction, we have relied on certain economic, market and other conditions prevailing at the date of this Report. We note that changes in these conditions may have a material impact on the results presented in this Report. BDO CFQ is not responsible for updating this Report in the event that these circumstances change.

BDO CFQ has had regard to RG 76 *Related Party Transactions* ('RG 76') when preparing this Report, which imposes various obligations on the independent directors of Elementos particularly regarding disclosure. We note that we have relied on the disclosures made by the independent directors of Elementos in satisfaction of RG 76.

This Report has also been prepared in accordance with professional standard APES 225 'Valuation Services' issued by the Accounting Professional and Ethical Standards Board.

5.0 Background of Elementos⁶

Section 5.0 of this Report is set out as follows:

- Section 5.1 provides an overview of Elementos and its projects;
- Section 5.2 sets out the equity structure of Elementos;
- Section 5.3 summarises the recent share market performance of Elementos; and
- Section 5.4 summarises the recent historical financial information of Elementos.

5.1 Overview

5.1.1 Overview of Elementos

Elementos is an Australian, ASX listed, copper and gold exploration company that was listed on the ASX in December 1999. Elementos has interests in a portfolio of five exploration properties located in the countries of Chile, Argentina and Australia. The Company currently controls more than 1,000 square kilometres of tenements located in world class mineral provinces, with developed infrastructure nearby and attractive investment environments.

The Company's strategic objective is to discover economic mineral deposits and realise value through development, joint venture, or sale.

5.1.2 Overview of Projects

Tamaya, Chile

Tamaya is located 330 kilometres north of the Chilean capital, Santiago. The Tamaya region has excellent exploration, mining, and development infrastructure. Activities at Tamaya have historically focused on selectively mining high-grade sulphide copper veins, with reported production of 2 million tonnes @ 12% copper and grades of up to 20%.

The Tamaya project comprises of 5,690 hectares of mining concessions and 1,200 hectares of exploration applications. Elementos has also recently submitted additional applications over ground hosting extensions of known mineralisation totalling 2,700 hectares.

Elementos can earn a 50% interest in the project by spending US\$7 million over three years on exploration and development, including drilling 5,000 metres per year.

Manantiales, Argentina

Manantiales is located 150 kilometres north-west of the city of San Juan in Argentina, and comprises a number of exploration leases covering 97 square kilometres.

⁶ All information set out in this section of this Report has been sourced from Elementos or from publicly available sources and confirmed as complete and accurate by Elementos.



Initial drilling results have confirmed high-grade gold mineralisation within a much larger envelope of lower-grade gold mineralisation. On September 20 2012, the Company reported a maiden inferred and indicated in-house resource estimate in accordance with JORC code 2004 of 36,310 ounces of gold equivalent.

Elementos is in the early stages of assessing various options in relation to the project, including further exploration, joint venture or divestment.

Santo Domingo, Argentina

Santo Domingo is located 120 kilometres east of the city of San Juan in Argentina. The project comprises a series of exploration tenements covering nearly 250 square kilometres and has access to well-established regional infrastructure.

Exploration activities at Santo Domingo have resulted in the discovery of an extensive mineralised system, with a number of distinct styles and structures. The main targets identified include the Yvette high-grade gold and silver-polymetallic shear zones, and the large Divisoria gold-copper porphyry system. In addition, the Company has identified three other porphyry targets at El Arriero, El Arriero Extension and Alunita, which remain untested by drilling.

Elementos believes that Santo Domingo could host a world-class deposit, which will require significant investment in exploration and infrastructure, including additional geophysics and deep drilling. Elementos has therefore begun discussions with potential joint venture partners with the financial capacity to explore and develop a large porphyry target, to complement the Company's technical understanding of the project.

Millenium, Australia

Millenium is situated near Cloncurry in the world-class Mt Isa Inlier, a significant gold and base metal producing region, host to major copper-gold and lead-silver-zinc deposits. The district has established mining, processing and transportation infrastructure.

Elementos has consolidated a large tenement position over the Corella Fault zone, located 40 kilometres north-west of Cloncurry. Elementos has been granted 254 square kilometres of Exploration Permits ('EPs'), with an additional 74 square kilometres of EPs still subject to government approval. The Company also has an 'option-to-purchase' agreement with Forte Energy NL to acquire 134 hectares of Mining Licenses ('MLs'), currently subject to renewal.

Little modern exploration has been undertaken on the EPs. However, extensive exploration has been undertaken on the MLs, including 13 drill holes which outlined a large zone of cobalt and copper mineralisation. A number of outcrop sampling programs have also identified gold, rare earth elements, yttrium and other metallic anomalies.

Selwyn South, Australia

The Company has made applications for 109 square kilometres of EPs (19371, 19375 and 19426) at a new project area called Selwyn South. EP 19375, representing 59% of the total area, is subject to a contested application which has yet to be resolved. The EPs are located over an area of inflection in a prospective north-south structural trend, which is a feature often related to major deposits and mineralised systems in the district. A thorough review is currently being carried out using open-file data and satellite imagery in order to help plan future exploration activities.

5.2 Equity Structure of Elementos

Elementos has 148,290,347 ordinary shares on issue as at the date of this Report.

The top 20 shareholders of Elementos as at 30 October 2012 are set out in Table 5.1 below. Table 5.1 does not consider the impacts of any change in shareholding arising as a result of the Proposed Transaction.

Table 5.1: Top 20 Elementos Shareholders and other shareholders as at 30 October 2012

Shareholder	Number of Shares	Percentage of Total Shares %
1 Andes Investors LLC	39,840,006	26.866
2 Belmont Park Investment Pty Ltd	7,615,386	5.135
3 JP Morgan Nominees Australia Limited	6,459,820	4.356
4 Richard Seville & Associates Pty Ltd	4,403,569	2.970
5 Hinton Family Holdings Pty Ltd	3,439,688	2.320
6 Mr Denis Grenville Hinton & Mrs Roslyn Susanna Hinton	2,835,796	1.912
7 Panorama Ridge Pty Ltd	2,824,614	1.905
8 Citicorp Nominees Pty Ltd	2,541,820	1.714
9 Fairground Pty Ltd	2,455,348	1.656
10 Thosnunn Pty Ltd	2,250,000	1.517
11 Lithium Investors LLC	2,029,256	1.368
12 Mr Yi Weng & Ms Ning Li	1,794,836	1.210
13 Mr Paul A Crawford & Mrs Robyn L Crawford	1,664,978	1.123
14 Mr Ian Lindsay Campbell	1,651,790	1.114
15 MacBeth Genealogical Services Pty Ltd	1,280,000	0.863
16 Mr Richard G. Austin & Mrs Pamela M. Austin	1,223,214	0.825
17 Orocobre Limited	1,223,214	0.825
18 Mr Denis Grenville Hinton & Mrs Roslyn Susanna Hinton	1,177,648	0.794
19 Broadcoola Nominees Pty Ltd	1,010,654	0.682
20 Mr Richard John Burden	1,000,000	0.674
Other Shareholders	59,568,710	40.170
Total Shares on Issue	148,290,347	100.000

Source: www.elementos.com.au

Elementos has 32,953,451 listed options on issue. Table 5.2 sets out the listed share options currently issued and outstanding as at the date of this Report together with their associated exercise prices.

Table 5.2: Listed Share Options Issued and Outstanding

Expiry Date	Exercise Price (\$)	Number of Options
9 April 2014	0.06	32,953,451
Total		32,953,451

Source: Elementos Appendix 3B Statements and Announcements

As at the date of this Report, the above options are considered to be ‘out of the money’.

Elementos also has 8.7 million unlisted options on issue. Table 5.3 sets out the unlisted share options currently issued and outstanding as at the date of this Report together with their associated exercise prices.

Table 5.3: Unlisted Share Options Issued and Outstanding

Expiry Date	Exercise Price (\$)	Number of Options
23 October 2015	0.233	4,500,000
23 December 2013	0.300	1,500,000
7 September 2015	0.250	1,200,000
7 September 2015	0.233	500,000
18 January 2017	0.333	1,000,000
Total		8,700,000

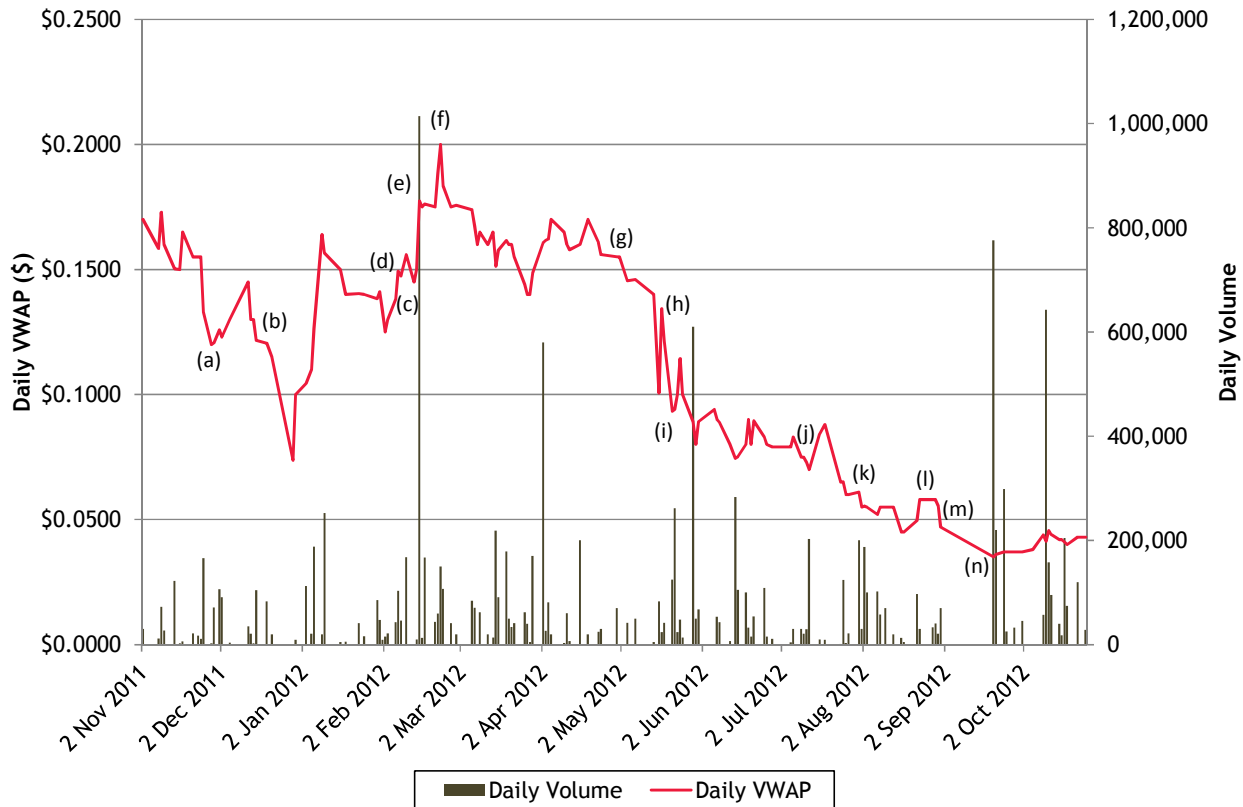
Source: Elementos Appendix 3B Statements and Announcements

As at the date of this Report, the above options are ‘out of the money’. For completeness, we note the unlisted options with an expiry date of 18 January 2017 are held by Mr Calaway.

5.3 Share Market Performance of Elementos

Elementos’ shares are listed on the ASX. Figure 5.1 below shows Elementos’ daily volume-weighted average share price (‘VWAP’) and the volume of shares traded over the period from 2 November 2011 to 26 October 2012 inclusive.

Figure 5.1: Daily VWAP and Volume Traded for Elementos from 2 November 2011 to 26 October 2012



Source: Bloomberg

Over the period graphed in Figure 5.1, the Elementos Daily VWAP shows a period low of \$0.035 on 20 September 2012 and a period high of \$0.200 on 23 February 2012.

In addition to the share price and trading data, we have also provided additional information in this Report to assist readers to understand possible reasons for movements in Elementos' share price and volume of shares traded over the time period analysed. The references in Figure 5.1 above correspond to the references in Table 5.4 below.

Table 5.4: Summary of Elementos' Announcements over the Period 2 November 2011 to 26 October 2012

	Date	Announcement
(a)	25/11/2011	Elementos announces Manantiales Phase II Drilling Results and Manantiales Phase II Extended Drilling Program.
(b)	15/12/2011	Elementos announces Manantiales Phase II Extended Drilling Program Commences.
(c)	06/02/2012	Elementos announces that it has secured the option to acquire a 90% interest in the Mercedes copper project in northern Chile.
(d)	07/02/2012	Elementos announces that it has entered into an earn-in joint-venture with HMC Gold SCM on the Tamaya copper project in Chile. Elementos can earn a 50% interest in the project by spending US\$7 million on exploration and development within a three year period.
(e)	15/02/2011	Elementos announces Mercedes demonstrates high-grade copper potential.
(f)	23/02/2011	Elementos releases its South America strategy update.
(g)	27/04/2012	Elementos releases its Quarterly Reports for the period ended March 2012.
(h)	18/05/2012	Elementos announces Manantiales project update.

	Date	Announcement
(i)	21/05/2012	Elementos announces Tamaya sampling identifies further high-grade copper.
(j)	12/07/2012	Elementos announces Tamaya project update.
(k)	27/07/2012	Elementos releases its Quarterly Activities and Cashflow Reports.
(l)	24/08/2012	Elementos announces it has gone into a trading halt.
(m)	28/08/2012	Elementos announces a non-renounceable rights issue and an underwritten rights issue to fund the Tamaya project.
(n)	18/09/2012	Elementos announces a maiden resource at Manantiales of 36,310 ounces of gold equivalent.

Source: Elementos Announcements

In Table 5.5 below, we have set out Elementos' VWAP for the 1 week, 1 month, 3 months, 6 months, 9 months and 12 months up to 26 October 2012.

Table 5.5: Elementos' VWAP Prior to 26 October 2012

Period Prior to 26 October 2012	VWAP Start Date	VWAP End Date	VWAP (\$)
1 week	20 October 2012	26 October 2012	\$0.0430
1 Month	27 September 2012	26 October 2012	\$0.0419
3 Months	27 July 2012	26 October 2012	\$0.0435
6 Months	27 April 2012	26 October 2012	\$0.0625
9 Months	27 February 2012	26 October 2012	\$0.1028
12 Months	27 October 2011	26 October 2012	\$0.1076

Source: Bloomberg

5.4 Historical Financial Information of Elementos

This section of this Report sets out the historical financial information of Elementos and its consolidated entities. As this Report contains only summarised historical financial information, we recommend that any user of this Report read and understand the additional notes and financial information contained in the annual reports of Elementos.

Elementos' accounts are audited by BDO Audit (QLD) Pty Ltd. BDO CFQ has not performed any audit or review of any type on the historical financial information of Elementos. We make no statement as to the accuracy of the information however we have no reason to believe that the information is not complete and accurate.

5.4.1 Statements of Comprehensive Income

The consolidated Statements of Comprehensive Income of Elementos for the 12 month periods ended 30 June 2011 and 2012 are summarised in Table 5.6 below.

Table 5.6: Consolidated Elementos Statements of Comprehensive Income for the 12 Month Periods Ended 30 June 2011 and 2012

	12 Months Ended 30 June 2011 Audited (\$)	12 Months Ended 30 June 2012 Audited (\$)
Revenue	312,948	285,739
Corporate and administrative expenses	(3,104,521)	(1,836,479)
Exploration and evaluation expenses	(382,943)	(1,172,321)
Loss before income tax expense	(3,174,516)	(2,723,061)
Income tax (expense) / benefit	-	(3,122)
Loss for the period attributable to members of the parent entity	(3,174,516)	(2,726,183)
Foreign currency translation differences	(599,983)	(379,147)
Other comprehensive income for the period net of tax	(599,983)	(379,147)
Total comprehensive income attributable to members of the parent entity	(3,774,499)	(3,105,330)

Source: Elementos 2012 Annual Report

In relation to the information set out above, we note the following:

- Revenue in 2012 included \$10,000 in option payments and \$275,739 in interest received from other persons. Revenue in 2011 was entirely made up from interest received for other persons; and
- Exploration and evaluation expenses increased by 206.1% from \$0.4 million in 2011 to \$1.2 million in 2012.

5.4.2 Statements of Financial Position

The consolidated Statements of Financial Position of Elementos as at 30 June 2011 and 2012 are summarised in Table 5.7 below.

Table 5.7: Consolidated Elementos Statements of Financial Position as at 30 June 2011 and 2012

	As at 30 June 2011 Audited (\$)	As at 30 June 2012 Audited (\$)
Current Assets		
Cash and cash equivalents	9,316,709	2,012,552
Other receivables	217,995	122,917
Other current assets	5,728	511,980
Total Current Assets	9,540,432	2,647,449
Non-Current Assets		
Exploration and evaluation assets	3,662,498	7,321,698
Plant & equipment	35,244	86,434
Total Non-Current Assets	3,697,742	7,408,132
Total Assets	13,238,174	10,055,581
Current Liabilities		
Trade and other payables	855,630	778,367

	As at 30 June 2011 Audited (\$)	As at 30 June 2012 Audited (\$)
Total Current Liabilities	855,630	778,367
Total Liabilities	855,630	778,367
Net Assets	12,382,544	9,277,214
Equity		
Issued capital	15,919,925	15,919,925
Reserves	450,467	71,320
Accumulated losses	(3,987,848)	(6,714,031)
Total Equity	12,382,544	9,277,214

Source: Elementos 2012 Annual Report

In relation to the information set out above, we note the following:

- Cash and cash equivalents decreased by 78.4% from \$9.3 million in 2011 to \$2.0 million to 2012;
- Exploration and evaluation assets increased by 99.9% from \$3.7 million in 2011 to \$7.3 million in 2012;
and
- Net assets decreased by 25.1% from \$12.4 million in 2011 to \$9.3 million in 2012.

5.4.3 Cash Flows

The consolidated Statements of Cash Flows of Elementos for the 12 month periods ended 30 June 2011 and 2012 are summarised in Table 5.8 below.

Table 5.8: Consolidated Elementos Statements of Cash Flows for the 12 Month Periods Ended 30 June 2011 and 2012

	12 Months Ended 30 June 2011 Audited (\$)	12 Months Ended 30 June 2012 Audited (\$)
Cash flows from operating activities		
Other receipts	-	10,000
Payments to suppliers and employees	(2,875,722)	(2,084,236)
Interest received	312,948	275,739
Net cash provided by/(used in) operating activities	(2,562,774)	(1,798,497)
Cash flows from investing activities		
Payments for exploration and evaluation	(1,962,015)	(4,903,114)
Payments for deposit	-	(494,787)
Purchase of property, plant and equipment	(11,583)	(94,038)
Net cash provided by/(used in) investing activities	(1,973,598)	(5,491,939)
Cash flows from financing activities		
Proceeds for issue of shares	7,365,547	-
Costs associated with share issue	(99,781)	-
Net cash provided by/(used in) financing activities	7,265,766	-
Net increase/(decrease) in cash held	2,729,394	(7,290,436)
Cash held at the beginning of the period	6,567,437	9,316,709
Effect of exchange rates on cash holdings in foreign currencies	19,878	(13,721)
Cash held at the end of the period	9,316,709	2,012,552

Source: Elementos 2012 Annual Report

In relation to the information set out above, we note the following:

- Net cash used in operating activities fell by 29.8% from \$2.6 million in 2011 to \$1.8 million in 2012;
- Net cash used in investing activities increased by 178.3% from \$2.0 million in 2011 to \$5.5 million in 2012, primarily due to an increase in exploration and evaluation expenditure; and
- There was no cash provided by or used in financing activities in 2012.

6.0 Assessment of the Fairness of the Proposed Transaction

This section of this Report sets out our opinion on the fairness of the Proposed Transaction and is set out as follows:

- Section 6.1 sets out our assessment methodology;
- Section 6.2 sets out our assessment of the fair value of the consideration provided by Andes Investors for each share in Elementos upon the exercise of the Options;
- Section 6.3 sets out our assessment of whether the consideration provided by Andes Investors for each share in Elementos upon the exercise of the Options includes a premium for control; and
- Section 6.4 sets out our assessment of the fairness of the Proposed Transaction to the non-associated Elementos shareholders.

6.1 Assessment Methodology

As discussed in Section 4.0 of this Report, we have considered the fairness of the Proposed Transaction to the non-associated Elementos shareholders by:

- Determining the fair value of the consideration provided by Andes Investors for each share in Elementos upon the exercise of the Options; and
- Determining whether the consideration provided by Andes Investors for each share in Elementos upon the exercise of the Options includes a premium for control.

In our view, the Proposed Transaction will not be fair to the non-associated Elementos shareholders if the consideration provided by Andes Investors for each share in Elementos upon the exercise of the Options does not include a premium for control.

For completeness we note that it is not possible to determine, as at the date of this Report, if or when Andes Investors might exercise the Options. Further it is not possible to determine, as at the date of this Report, what the value and share price of Elementos might be as at the date any or all of the Options are exercised.

6.2 Assessment of the Value of the Consideration provided upon the Exercise of the Options

We understand the Options each have an exercise price of \$0.06. Andes Investors will therefore provide cash consideration of \$0.06 for each share in Elementos acquired if a decision is made to exercise any or all of the Options.

We have adopted the exercise price of \$0.06 per share for the purposes of determining the fair value of the consideration provided by Andes Investors for each share in Elementos upon the exercise of the Options in this Report.

6.3 Assessment of the Control Premium Offered

The Options held by Andes Investors are ‘call options’ over shares, as they provide Andes Investors with the right, but not the obligation, to purchase additional shares in Elementos (assuming shareholder approval is provided for the Options to be exercised).

Call options over shares are generally only exercised by their holders when they are considered to be ‘in the money’. Call options over shares are ‘in the money’ when the price of the shares over which the call options are held is greater than the exercise price of the call options. Exercising call options over shares that are ‘in the money’ effectively enables the holder of the call options to purchase shares in a company for a price that is less than the market price of the shares.

Call options over shares are ‘out of the money’ when the price of the shares over which the call options are held is less than the exercise price of the call options. Call options over shares that are ‘out of the money’ will not generally be exercised by their holders and will eventually lapse if they are not exercised before they expire. Subject to the number of shares available to acquire at a certain price, holders of call options that are ‘out of the money’ may purchase shares in a company on market for a price that is less than the exercise price of the call options.

Call options over shares are ‘at the money’ when the price of the shares over which the call options are held is equal to the exercise price of the call options. Subject to the number of shares available to acquire at the relevant price, holders of call options that are ‘at the money’ are generally indifferent between purchasing shares in a company on market or through exercising the call options.

In our view, Andes Investors is likely to exercise the Options only if the Elementos share price is greater than or equal to the exercise price of the Options. Exercising the Options when they are either ‘in the money’ or ‘at the money’ will enable Andes Investors to purchase additional shares in Elementos for a price that is equal to or less than their market price. Andes Investors is unlikely to exercise the Options if they are ‘out of the money’, in our view, as in this circumstance additional shares in Elementos could be acquired on market for a price that is less than the exercise price of the Options.

As the Options are likely to be exercised only when they are either ‘in the money’ or ‘at the money’, the value of the consideration offered by Andes Investors for each Elementos share is likely to be less than or equal to the market price of a share in Elementos. In our view, a premium for control is only likely to exist if the consideration offered for each Elementos share is greater than the market price of a share in Elementos. The market price of a share in Elementos, in the absence of any other information, could generally be expected to represent the value of an Elementos share on a minority interest basis. Accordingly, a premium for control is not likely to exist where the Options are exercised ‘in the money’ or ‘at the money’.

Having regard to the above discussion, it is our view that the value of the consideration offered by Andes Investors under the terms of the Proposed Transaction is not likely to include a premium for control.

6.4 Assessment of the Fairness of the Proposed Transaction to the Non-Associated Elementos Shareholders

RG 111 states that an issue of shares by a company prohibited under section 606 of the Act but which may be approved under item 7 of section 611 of the Act is required to be analysed as though it were a control transaction. Having regard to the requirements of RG 111, it is therefore necessary for a control premium to be observed in relation to an issue of shares prohibited under section 606 of the Act but approved under item 7 of section 611 of the Act in order for the issue of shares to be considered fair to non-associated Elementos shareholders.



As the consideration offered by Andes Investors upon the exercise of the Options is not likely to include a premium for control, it is our view that the Proposed Transaction cannot be determined to be fair to the non-associated Elementos shareholders as at the date of this Report. It follows that as we are unable to determine that the Proposed Transaction is fair to the non-associated Elementos shareholders we conclude that the transaction is **not fair** to the non-associated Elementos shareholders.

7.0 Assessment of the Reasonableness of the Proposed Transaction

This section of this Report sets out our opinion on the reasonableness of the Proposed Transaction and is set out as follows:

- Section 7.1 sets out the advantages of the Proposed Transaction to non-associated Elementos shareholders;
- Section 7.2 sets out the disadvantages of the Proposed Transaction to non-associated Elementos shareholders;
- Section 7.3 considers the position of non-associated Elementos shareholders in the event the Proposed Transaction is not approved; and
- Section 7.4 provides our assessment of the reasonableness of the Proposed Transaction.

7.1 Advantages of the Proposed Transaction to Non-Associated Elementos Shareholders

Table 7.1 sets out the potential advantages to non-associated Elementos shareholders of approving the Proposed Transaction.

Table 7.1: Advantages to Non-Associated Elementos Shareholders of Approving the Proposed Transaction

Advantage	Explanation
Cornerstone investors in Elementos (the entities associated with Mr Calaway) will have the opportunity to continue providing their support to the Company via the exercise of the Options	<p>We understand the entities associated with Mr Calaway have been long term supporters of Elementos and have provided the Company with significant financial support. This financial support has assisted the management of the Company to pursue their strategy and to meet their business objectives.</p> <p>It is our view that it is appropriate for Elementos to seek the support of cornerstone investors such as the entities associated with Mr Calaway, particularly given the current uncertainty in global equity markets and the increased difficulty of raising new capital. If the Proposed Transaction is approved, the entities associated with Mr Calaway will have the opportunity to continue providing their support to the Company via the exercise of the Options. A failure to approve the Proposed Transaction may be a disincentive for the entities associated with Mr Calaway to continue providing support to the Company in the future.</p>
Capital raised through any exercise of the Options does not attract further broking fees and other capital raising costs ordinarily incurred	<p>While in our view it is not likely that the price paid at the relevant date to exercise the Options will include a premium for control and it cannot be determined whether any of the Options will ultimately be exercised by the entities associated with Mr Calaway, any capital raised from the exercise of the Options will not attract any additional fees and/or capital raising costs. We note that the Company is likely to require additional funding into the future and some of that capital may be provided through the exercise of the Options.</p>

In addition to the advantages set out in Table 7.1 above, we also note the following other matters to which non-associated Elementos shareholders may give consideration prior to voting in favour of or against the Proposed Transaction:

- The entities associated with Mr Calaway hold an existing interest in more than 20% of the shares on issue in Elementos and so, irrespective of whether the Proposed Transaction is approved, already have the ability to:
 - exert significant influence over the nomination of Elementos board members and, consequently, the future direction of the Company; and
 - block special resolutions at general meetings; and
- Andes Investors may choose to transfer the Options to another party if the Proposed Transaction is not approved. As a result, non-associated shareholders may still have their interests diluted irrespective of whether the Proposed Transaction is approved.

Having regard to the above matters, it is our view that the entities associated with Mr Calaway will not increase their control over the Company in a practical manner as a result of the Proposed Transaction.

7.2 Disadvantages of the Proposed Transaction to Non-Associated Elementos Shareholders

Table 7.2 sets out the potential disadvantages to non-associated Elementos shareholders of approving the Proposed Transaction.

Table 7.2: Disadvantages to Non-Associated Elementos Shareholders of Approving the Proposed Transaction

Disadvantage	Explanation
A premium for control is not likely to be paid by Andes Investors for each share in Elementos upon the exercise of the Options	<p>It is our view that Andes Investors is likely to exercise the Options only if the market price of Elementos shares is greater than the exercise price of the Options. As a result, the value of the consideration offered by Andes Investors for each share in Elementos upon the exercise of the Options may be less than or equal to the market price of a share in Elementos.</p> <p>In our view, a premium for control is likely only to exist if the consideration offered for each Elementos share exceeds the market price of a share in Elementos, as the market price of a share in Elementos represents the value of an Elementos share on a minority interest basis.</p> <p>Having regard to the above discussion, it is our view that the value of the consideration offered by Andes Investors for each share in Elementos upon the exercise of the Options is not likely to include a premium for control.</p>

7.3 Position of Non-Associated Elementos Shareholders if the Proposed Transaction is Not Approved

Table 7.3 sets out a number of possible impacts on individual non-associated Elementos shareholders if the Proposed Transaction is not approved.

Table 7.3: Position of Non-Associated Elementos Shareholders if the Proposed Transaction is Not Approved

Impact	Explanation
Andes Investors will not have the right to exercise the Options	If the Proposed Transaction is not approved, Andes Investors will not have the right to exercise the Options. As a result, the entities associated with Mr Calaway will not be able to further increase their relevant interest in Elementos shares via the exercise of the Options.

Impact	Explanation
<p>The entities associated with Mr Calaway will retain a significant interest in Elementos and may choose to increase this interest under the creep provisions of the Act</p>	<p>The entities associated with Mr Calaway will continue to hold an interest in 28.23% of Elementos shares if the Proposed Transaction is not approved. Over time, the entities associated with Mr Calaway may choose to increase their interest in Elementos under the creep provisions of the Act. The creep provisions set out in the Act allow the entities associated with Mr Calaway to acquire an additional 3.0% interest in the shares of Elementos every 6 months.</p> <p>For completeness, we note that upward pressure may be placed on the Elementos share price if the entities associated with Mr Calaway elect to increase their existing interest in Elementos in accordance with the creep provisions via on-market trading. We note however that there is no guarantee that the entities associated with Mr Calaway will seek to increase their interest in Elementos via on-market trading or that this would lead to upward pressure on the share price of Elementos.</p>
<p>Non-associated shareholders may still be diluted</p>	<p>Andes Investors may transfer the Options, in whole or in part, to another party at any time. Andes Investors may therefore choose to sell the Options to another party if the Proposed Transaction is not approved. As a result, non-associated shareholders may still have their interests diluted by another party if the Proposed Transaction is not approved.</p> <p>It is also possible that attempts to dispose of a relatively large number of Options by Andes Investors may depress the market price of the Options if the demand for the Options is not sufficient.</p>
<p>Elementos will not be able to recover any of the costs associated with the Proposed Transaction</p>	<p>If the Proposed Transaction is not approved, Elementos will not be able to recover the costs incurred in relation to the Proposed Transaction.</p>

7.4 Assessment of the Reasonableness of the Proposed Transaction to the Non-Associated Elementos Shareholders

Having regard to the above analysis, it is our view that the Proposed Transaction is **reasonable** to the non-associated Elementos shareholders as at the date of this Report.

8.0 Sources of Information

This Report is based on information from sources including the following:

- Elementos Annual Report for the year ended 30 June 2012;
- Notice of Annual General Meeting prepared by Elementos;
- Prospectus prepared by Elementos in relation to the Offer dated 28 August 2012;
- Publicly available information from sources including ASX announcements, Bloomberg, the Copper Development Association, the US Geological Survey and the Australian Bureau of Statistics;
- Information from Elementos' website: www.elementos.com.au;
- ASIC RGs;
- The Act; and
- Meetings and correspondence with the management and directors of Elementos and their advisors.



9.0 Indemnities, Representations and Warranties

Elementos have agreed to our usual terms of engagement in addition to the following indemnities and representations set out below.

9.1 Indemnities

In connection with BDO CFQ's engagement to prepare this Report, Elementos has agreed to indemnify and hold harmless BDO CFQ, BDO (QLD) or any of the partners, directors, agents or associates (together 'BDO Persons'), to the full extent lawful, from and against all losses, claims, damages, liabilities and expenses incurred by them. Elementos will not be responsible, however, to the extent to which such losses, claims, damages, liabilities or expenses result from the negligent acts or omissions or wilful misconduct of any BDO Persons.

Elementos has agreed to indemnify BDO Persons in respect of all costs, expenses, fees of separate legal counsel or any other experts in connection with investigating, preparing or defending any action or claim made against BDO Persons, including claims relating to or in connection with information provided to or which should have been provided to BDO CFQ by Elementos (including but not limited to the directors and advisers of Elementos) as part of this engagement.

9.2 Representations and Warranties

Elementos recognises and confirms that, in preparing this Report, except to the extent to which it is unreasonable to do so, BDO Persons have used and relied on publicly available information and on data, material and other information furnished to BDO Persons by Elementos, its management, and other parties, and may have assumed and relied upon the accuracy and completeness of, and has not assumed any responsibility for independent verification of, such publicly available information and the other information so furnished.

10.0 Experience, Disclaimers and Qualifications

BDO CFQ has extensive experience in the provision of corporate finance advice, including takeovers, valuations and acquisitions. BDO CFQ holds a Financial Services Licence issued by ASIC for preparing independent expert reports pursuant to the ASX Listing Rules and the Act.

BDO CFQ and its related parties in Australia have a wide range of experience in transactions involving the advising, auditing or expert reporting on companies that have operations domestically and in foreign jurisdictions. BDO in Australia is a national association of separate companies, partnerships and other entities and is a member of the international BDO network of individual firms.

Steven Sorbello has prepared this Report with the assistance of staff members. Mr Sorbello is a director of BDO CFQ and has extensive experience in the provision of corporate advice and the provision of valuation and business services to a diverse range of clients, including large private, public and listed companies, financial institutions and professional organisations.

BDO CFQ has been engaged by the directors of Elementos to provide an independent expert's report to the non-associated shareholders of Elementos to assist them to decide whether to vote in favour of or against the Proposed Transaction. BDO CFQ hereby consents to this Report being used for that purpose. Apart from such use, neither the whole nor any part of this Report, nor any reference thereto may be included in or with, or attached to any document, circular, resolution, statement, or letter without the prior written consent of BDO CFQ.

BDO CFQ takes no responsibility for the contents of other documents supplied in conjunction with this Report. BDO CFQ has not audited or reviewed the information and explanations supplied to us, nor has it conducted anything in the nature of an audit or a review of any of the entities or assets mentioned in this Report. However we have no reason to believe that any information or explanations supplied to us are false or that material information has been withheld.

Any forecast information which has been referred to in this Report has been prepared by the relevant entity and is generally based upon best estimate assumptions about events and management actions, which may or may not occur. Accordingly, BDO CFQ cannot provide any assurance that any forecast is representative of results or outcomes that will actually be achieved.

The statements and opinions included in this Report are given in good faith and in the belief that they are not false, misleading or incomplete. This Report is current as at 15 November 2012.

BDO Corporate Finance (QLD) Ltd



Steven Sorbello
Director

Appendix A - Industry Information

Elementos operates within the gold, copper and mineral exploration industries. This section of this Report provides a brief overview of each of the industries in which Elementos operates.

This section of this Report is set out as follows:

- Section A.1 sets out a summary of the gold industry;
- Section A.2 sets out a summary of the copper industry; and
- Section A.3 sets out a summary of the mineral exploration industry.

The information in this section of this Report is a summary only and is not intended to be a comprehensive analysis of the abovementioned industries. Accordingly, this appendix should be referred to as a broad guide only.

The information presented in this appendix has been compiled from a range of publicly available sources. We have not commissioned the reports referred to in this appendix and have not independently verified any of the information. We recommend that Elementos shareholders refer to the original source of the information listed in this appendix, and any other information they believe appropriate, for a more comprehensive analysis.

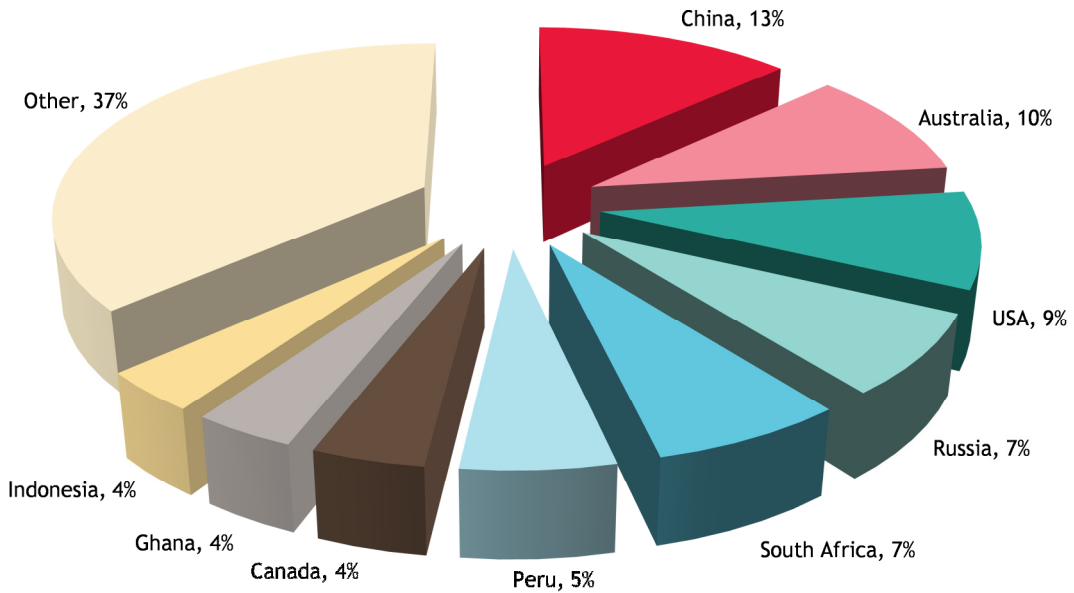
A.1 Gold Industry Overview

A.1.1 Gold Production

Global gold production totalled approximately 2,700 tonnes in 2011, up from 2,600 tonnes in 2010. China was the world's largest gold producing country in 2011, producing a total of 355 tonnes or 13.1% of global gold production. Australia was the world's second largest gold producing country in 2011, producing a total of 270 tonnes or 10.0% of global gold production. Peru was the largest gold producing South American country in 2011, producing 150 tonnes or 5.6% of global gold production.

Figure A.1 below sets out the percentage of global gold production in 2011 by country.

Figure A.1: Global Gold Production in 2011 by Country



Source: US Geological Survey

A.1.2 Global Demand Drivers

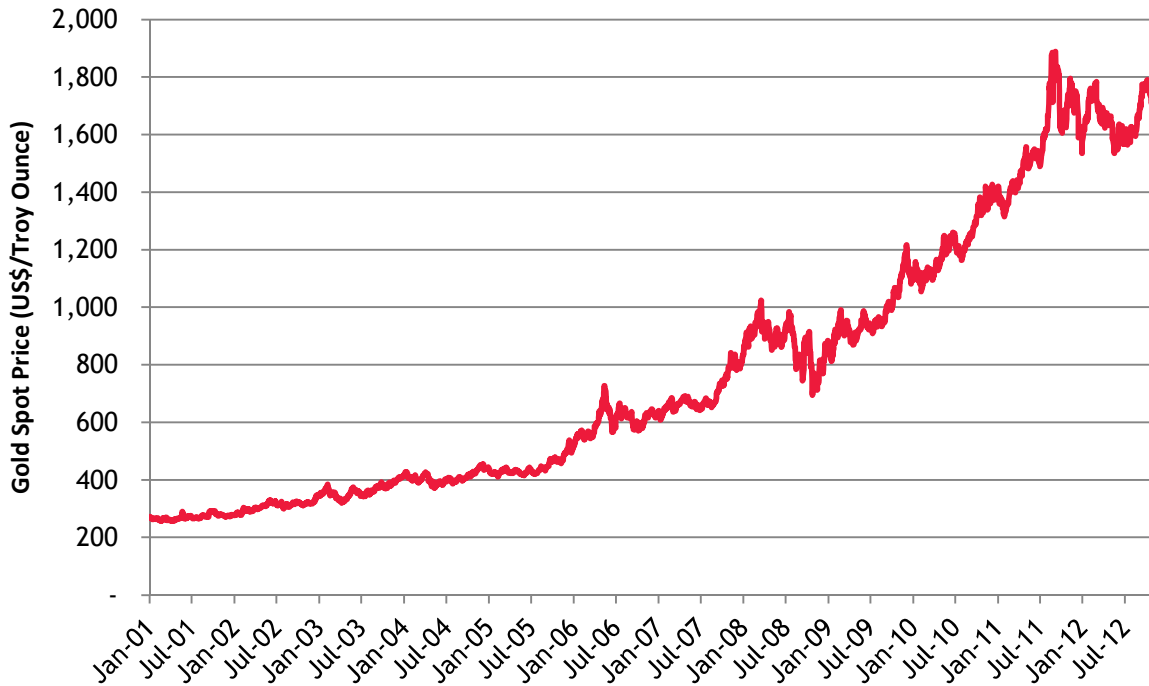
World demand for gold encompasses two uses, consumption and investment. Gold consumption relates to the use of gold in the manufacturing of jewellery, electronics, dentistry, coins and other industrial applications. Gold investment relates to gold purchases for financial purposes (usually in the form of gold bullion). Consumption demand for gold accounts for approximately three-quarters of total global demand.

Factors which influence the demand for gold consumption and investment differ. Gold consumption demand is influenced by changes at the household level, including household income, changes in consumer appetite / taste for jewellery and gold dentistry, and demand for electronics. Gold investment demand is influenced by broader economic factors, including developments in the outlook for global economies, shifts in the value of major currencies and changes in the riskiness of other assets.

A.1.3 Gold Prices

Figure A.2 below sets out the spot gold price for the period from January 2001 to October 2012.

Figure A.2: Gold Spot Price from January 2001 to October 2012



Source: Bloomberg

Note: 1.0 Troy Ounce = 1.09714 Ounces

We note the following in relation to Figure A.2 above:

- Over the period January 2001 to October 2012, the price for gold has steadily increased from a low of US\$257 per troy ounce to a high of US\$1,888 per troy ounce; and
- The price of gold was approximately equal to US\$1,721 per troy ounce as at 31 October 2012.

A.2 Copper Industry Overview

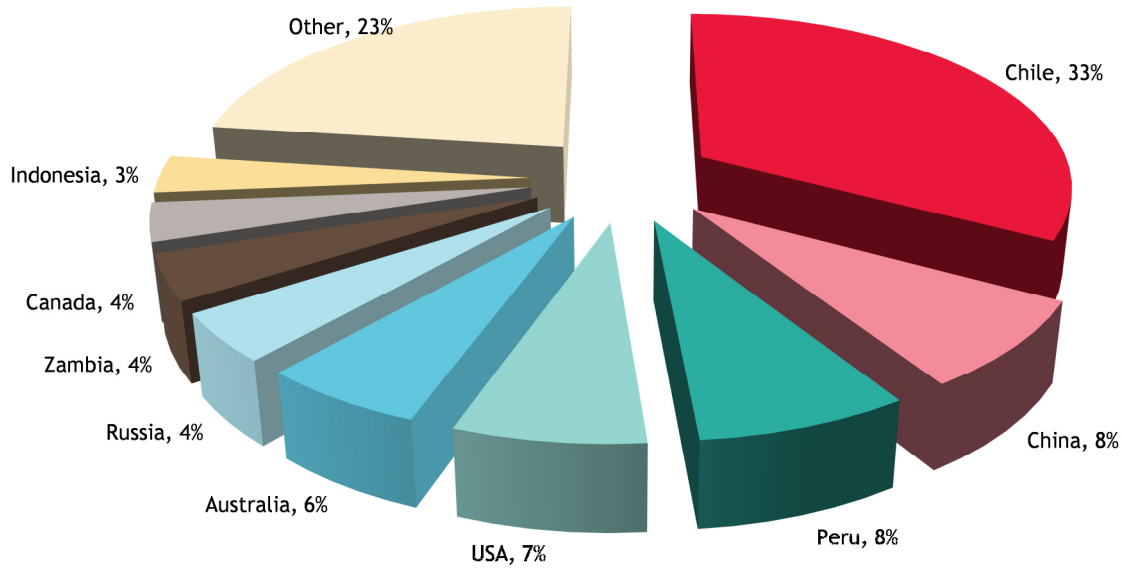
A.2.1 Copper Production

The world’s production of copper has increased dramatically over the past 20 years. Global copper production totalled approximately 16,035 thousand tonnes in 2011, an increase of 76.3% over global production of 9,095 thousand tonnes in 1991. Chile is the world’s largest copper producing country, producing a total of 5,263 thousand tonnes or 32.8% of global copper production in 2011. Other major copper producing countries include China, Peru and the United States.

Australia is the world’s fifth largest copper producing country, producing a total of 958 thousand tonnes or 6.0% of global copper production in 2011. Argentina produced a total of 117 thousand tonnes of copper, or less than 1.0% of global copper production in 2011.

Figure A.3 below sets out the percentage of global copper production in 2011 by country.

Figure A.3: Global Copper Production in 2011 by Country



Source: Copper Development Association

A.2.2 Global Uses of Copper

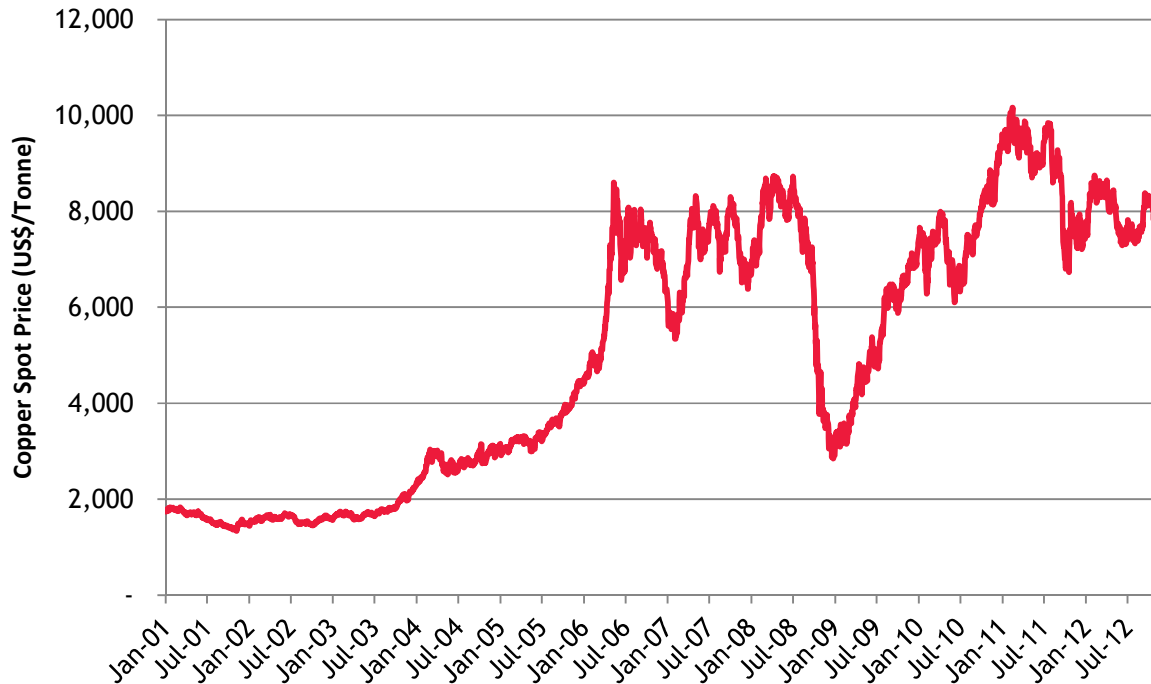
Copper is resistant to corrosion, conducts heat and electricity efficiently and can be easily stretched, moulded and shaped. Copper can also be easily combined with other elements to make alloys such as brass or bronze when a higher level of hardness is required. As a result of these characteristics, copper has a number of domestic and industrial applications.

The major applications of copper are in electrical wires and cabling, roofing and plumbing and industrial machinery. A small percentage of copper is also used in the production of alloys and in the production of compounds for nutritional supplements and fungicides in agriculture.

A.2.3 Copper Prices

Figure A.4 below shows the spot price for copper (in US\$/tonne) for the period January 2001 to October 2012.

Figure A.4: Copper Spot Price from January 2001 to October 2012



Source: Bloomberg

We note the following in relation to Figure A.4 above:

- From the period January 2001 to October 2012, the price for copper has moved from a low of US\$1,339 per tonne to a high of US\$10,160 per tonne;
- The price of copper is highly volatile, having moved from above US\$8,700 per tonne in July 2008 to below US\$2,900 per tonne in December 2008, before increasing again to a level above US\$10,000 per tonne in February 2011; and
- The price of copper was approximately equal to US\$7,720 per tonne as at 31 October 2012.

A.3 Minerals Exploration Industry Overview

A.3.1 Overview

Mining exploration firms are involved in the discovery and development of ore bodies for future production and export.

Exploration companies compete to obtain retention and exploration leases over areas of land considered to be prospective. Once an exploration lease is obtained by a company, the holder may carry out exploration and other activities that may be necessary for defining and producing the resource.

Mineral exploration is generally regarded as a risky undertaking and as a speculative investment by prospective lenders and shareholders. This is because only a very small fraction of discovered mineral ore bodies are ever developed into profitable mining operations.

A large proportion of minerals exploration activity relates to the exploration of existing ore deposits. These exploration activities are focused on proving a known deposit already classified as an inferred mineral resource. Exploration of existing deposits is considered less risky as mineral ore bodies have already been identified. The remaining exploration activity relates to identifying new deposits. New deposits are defined as previously unknown mineralisation or known mineralisation that has not yet had sufficient exploration to be classified as an inferred mineral resource.

A.3.2 Exploration Expenditure

The level of exploration of different minerals and ore bodies is primarily driven by the level of demand for minerals. Expenditure of mineral exploration companies is influenced by the level of metal and minerals prices demanded by the market and spending on mineral exploration generally follows trends in mineral prices.

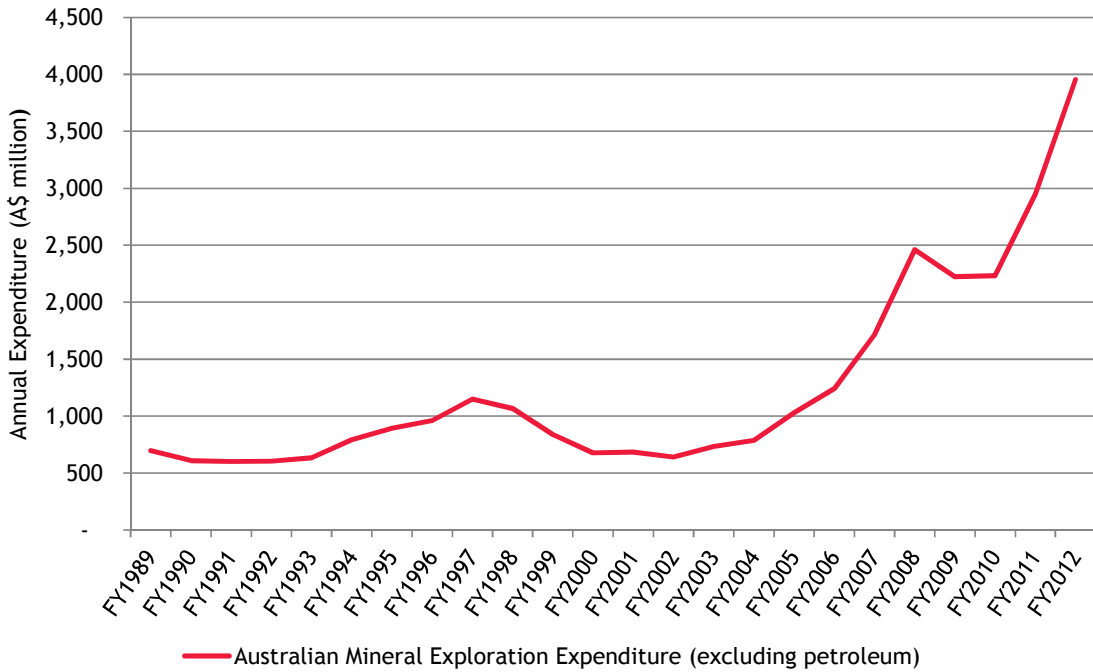
Advances in mineral extraction technologies also influence the level of spending on mineral exploration. The availability of newer extraction and processing technologies allow ore bodies that were previously considered to be economically unviable to be brought into production. Advances in technology allow a greater number of ore bodies to be explored for potentially viable mining operations.

Government policy changes may also affect the level of exploration for specific mineral types.

Australian mineral exploration expenditure, excluding petroleum, in 2011-2012 was approximately \$4.0 billion, 34% more than the total exploration expenditure of approximately \$3.0 billion during 2010-2011. The increase in minerals exploration expenditure was supported by relatively high commodity prices, expected future costs of exploration and development and Australian government policy setting. Notwithstanding short term volatility in commodity prices, minerals exploration expenditure is expected to remain high, at least in the medium term, as the long term outlook for commodities prices continues to be positive. This is despite short term volatility currently being experienced in commodity markets.

Figure A.5 below sets out the annual expenditure of Australian companies on mineral exploration (excluding petroleum) from financial years 1989 to 2012.

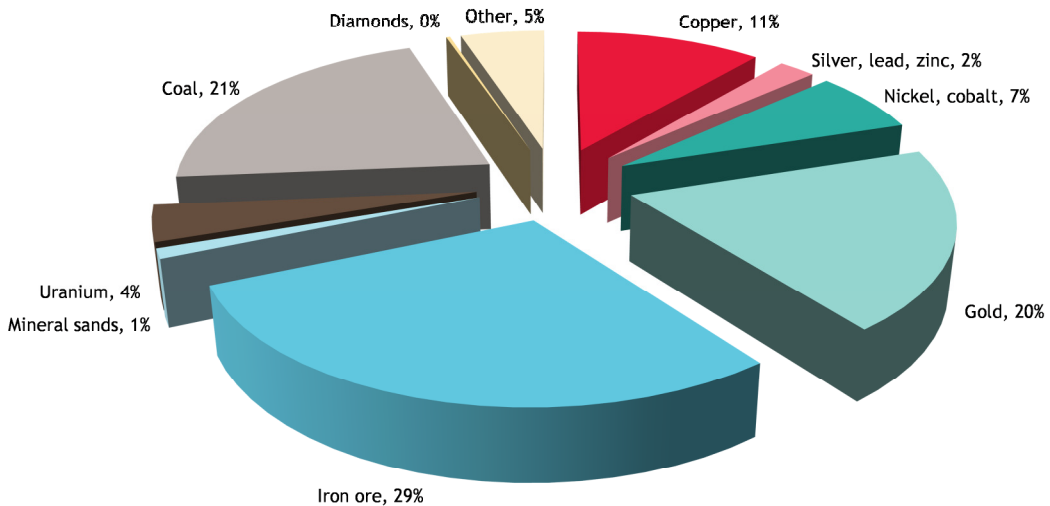
Figure A.5: Annual Australian Mineral Exploration Expenditure (Excluding Petroleum)



Source: Australian Bureau of Statistics

Figure A.6 below sets out the percentage of total exploration expenditure in Australia for different resource types during financial year 2012.

Figure A.6: Exploration Expenditure in Australia by Resource Type



Source: Australian Bureau of Statistics